

ACORDA THERAPEUTICS INC
Form S-1/A
January 05, 2006

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As filed with the Securities and Exchange Commission on January 5, 2006

Registration No. 333-128827

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2 TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ACORDA THERAPEUTICS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

2836
(Primary Standard Industrial
Classification Code Number)

13-3831168
(I.R.S. Employer Identification Number)

15 Skyline Drive
Hawthorne, New York 10532
(914) 347-4300

(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)

Ron Cohen
Chief Executive Officer
15 Skyline Drive
Hawthorne, New York 10532
(914) 347-4300

(Name, Address, Including Zip Code, and Telephone Number,
Including Area Code, of Agent For Service)

Copy To:

Ellen B. Corenswet
Covington & Burling
1330 Avenue of the Americas
New York, New York 10019
(212) 841-1000

Danielle Carbone
Shearman & Sterling LLP
599 Lexington Avenue
New York, New York 10022
(212) 848-4000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

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

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 number of the earlier effective registration statement for the same offering. o

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 number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act, please check the following box. o

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 of 1933, or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this 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 prospectus is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 5, 2006

Prospectus

Shares

Common Stock

Acorda Therapeutics, Inc. is offering _____ shares of common stock. This is our initial public offering, and no public market currently exists for our shares. We anticipate that the initial public offering price will be between \$ _____ and \$ _____ per share. After the offering, the market price for our shares may be outside this range.

We will apply to list our common stock on the Nasdaq National Market under the symbol "ACOR."

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 9.

	Per Share	Total
Offering price	\$ _____	\$ _____
Discounts and commissions to underwriters	\$ _____	\$ _____
Offering proceeds to Acorda Therapeutics, Inc., before expenses	\$ _____	\$ _____

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

We have granted the underwriters the right to purchase up to _____ additional shares of common stock to cover any over-allotments. The underwriters can exercise this right at any time within 30 days after the offering. The underwriters expect to deliver the shares on or about _____, 2006.

Banc of America Securities LLC

Lazard Capital Markets

Piper Jaffray

SG Cowen & Co.

, 2006

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making offers to sell or seeking offers to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate as of the date on the front of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully before making an investment decision.

Overview

We are a commercial-stage biopharmaceutical company dedicated to the identification, development and commercialization of novel therapies that improve neurological function in people with spinal cord injury, or SCI, multiple sclerosis, or MS, and other disorders of the central nervous system, or CNS. Our marketed product, Zanaflex Capsules, is FDA-approved for the management of spasticity. Our lead product candidate, Fampridine-SR, is in a Phase 3 clinical trial for the improvement of walking ability in people with MS. Our preclinical programs also target MS and SCI, as well as other CNS disorders, including stroke and traumatic brain injury.

Approximately 650,000 people in the United States suffer from MS or SCI and the combined annual cost of treatment for these conditions exceeds \$13 billion. It is estimated that a total of approximately 10 million people live with the long-term consequences of traumatic brain injury and stroke.

Our goal is to continue to grow as a fully-integrated biopharmaceutical company by commercializing pharmaceutical products, developing our product candidates and advancing our preclinical programs for these large and underserved markets. We plan to accomplish this through our sales and marketing infrastructure, our extensive scientific and medical network, our partnerships and our clinical and management experience.

Our Product Pipeline

Zanaflex

Our products, Zanaflex Capsules and Zanaflex tablets, are FDA-approved for the management of spasticity, a symptom of conditions such as MS and SCI that is commonly characterized by stiffness and rigidity, restriction of movement and painful muscle spasms. Zanaflex Capsules and Zanaflex tablets contain tizanidine hydrochloride, or tizanidine, one of the two leading treatments currently used for the management of spasticity. We acquired Zanaflex Capsules and Zanaflex tablets from a wholly-owned subsidiary of Elan Corporation, plc, or Elan, in July 2004. This strategic acquisition provided us with the opportunity to build a commercial infrastructure, develop sales and marketing expertise and create a foundation for future product launches, in addition to generating product revenue.

In April 2005, we launched Zanaflex Capsules, a new capsule formulation of tizanidine. This product is protected by an issued U.S. patent. Zanaflex tablets lost compound patent protection in 2002 and now compete with 11 generic versions of tizanidine tablets.

We believe that Zanaflex Capsules offer important benefits over Zanaflex tablets and generic tizanidine tablets. When taken with food, Zanaflex Capsules have a different blood absorption profile, referred to as pharmacokinetic profile, than Zanaflex tablets and generic tizanidine tablets, generally resulting in a lower level and more gradual rise of peak levels of tizanidine in a patient's blood. As a result of this different pharmacokinetic profile, Zanaflex tablets and generic tizanidine tablets are not therapeutically equivalent, or AB-rated, with Zanaflex Capsules. Therefore, under state pharmacy laws, prescriptions written for Zanaflex Capsules may not properly be filled by the pharmacist with Zanaflex tablets or generic tizanidine tablets. Zanaflex Capsules are also available in a higher dose, which gives patients and prescribers an additional choice in dosing and an opportunity to reduce the number of pills a person must take daily. In addition, people who have difficulty swallowing may find Zanaflex Capsules easier to take.

To support our commercialization of Zanaflex Capsules, we have established a sales and marketing infrastructure consisting of our internal specialty sales force, a contract sales force and a pharmaceutical telesales group. Our internal specialty sales force currently consists of 14 sales professionals who call on neurologists and other prescribers specializing in treating patients with conditions that involve spasticity. Members of this sales force also call on managed care organizations, pharmacists and wholesale drug distribution customers. We plan to expand our specialty sales force to approximately 30 sales professionals in the first quarter of 2006. Our contract sales force is provided by Cardinal Health PTS, LLC, or Cardinal Health, and consists of approximately 160 sales representatives who market Zanaflex Capsules to primary care physicians. We also have a contract with Access Worldwide Communications to provide a small, dedicated sales force of pharmaceutical telesales professionals to contact primary care physicians, specialty physicians and pharmacists. Our current sales and marketing infrastructure enables us to reach virtually all high-volume prescribers of Zanaflex tablets and generic tizanidine. We believe that these prescribers are also potential high-volume prescribers for our lead product candidate, Fampridine-SR, if approved.

Fampridine-SR

Fampridine-SR is currently in a Phase 3 clinical trial for the improvement of walking ability in people with MS. The trial is being conducted pursuant to a Special Protocol Assessment, or SPA, with the FDA. The FDA has agreed that, if successful, this trial could qualify as one of the pivotal efficacy studies required for drug approval. Fampridine-SR is a small molecule drug contained in a sustained release oral tablet form. Laboratory studies have shown that fampridine, the active molecule in Fampridine-SR, improves impulse conduction in nerve fibers in which the insulating outer layer, called the myelin sheath, has been damaged. This damage may be caused by the body's own immune system, in the case of MS, or by physical trauma, in the case of SCI.

More than 800 people have been treated with Fampridine-SR in over 25 clinical trials, including nine clinical trials in MS and 11 clinical trials in SCI. In six Phase 2 clinical trials, treatment with Fampridine-SR has been associated with a variety of neurological benefits in people with MS or SCI. In our most recently completed Phase 2 clinical trial, there was a trend toward improvement in the primary endpoint of walking speed and, when analyzed using the same methodology that the FDA has now agreed to in the SPA for our Phase 3 clinical trial, these results would have been statistically significant. We expect the recruitment period for the current Phase 3 clinical trial, which began in June 2005, to require approximately six to eight months. The treatment period is 14 weeks and the subjects are involved in trial procedures for approximately five months. We expect to be able to evaluate data from this clinical trial in the third quarter of 2006.

We believe Fampridine-SR is the first potential therapy in late-stage clinical development for MS that seeks to improve the function of damaged nerve fibers, rather than only treating the symptoms of MS or slowing the progression of disease. To our knowledge, there are no current drug therapies that improve walking ability in people with MS. We plan to commercialize Fampridine-SR, if approved, ourselves in the United States, and possibly Canada, and with partners in various markets throughout the rest of the world.

Preclinical programs

We have three preclinical programs focused on novel approaches to repair damaged components of the CNS:

Chondroitinase. This program is based on the concept of breaking down the matrix of scar tissue that develops as a result of an injury to the CNS. Published research has demonstrated that this scar matrix is partly responsible for limiting the regeneration of nerve fibers in the CNS and restricting their ability to modify existing neural connections. Independent academic laboratories have also published animal studies showing that application of chondroitinase results in recovery of function following injuries to various areas of the brain or spinal cord.

Neuregulins. This program is based on using GGF-2, a neuregulin growth factor to stimulate remyelination, or repair of the myelin sheath. In published studies, GGF-2 has been shown to stimulate remyelination in animal models of MS and to have other effects in neural protection and repair.

Remyelinating antibodies. This program is based on more than 15 years of research performed at Mayo Clinic. Studies have demonstrated the ability of this family of antibodies to stimulate remyelination in three different animal models of MS.

We believe that all of our preclinical therapies have the potential to address conditions for which no effective treatment currently exists. In addition to applicability in MS, SCI and various other CNS disorders, we believe that our preclinical programs also may have applicability in such fields as orthopedics, cardiology, oncology and ophthalmology.

Our Strategy

Our strategy is to continue to grow as a fully-integrated biopharmaceutical company focused on the identification, development and commercialization of a range of nervous system therapeutics. We are using our scientific and clinical expertise in MS and SCI as strategic points of access to additional CNS markets, including stroke and traumatic brain injury. Key aspects of our strategy are to:

maximize our revenue opportunity for Zanaflex Capsules;

complete the clinical development and obtain regulatory approval for Fampridine-SR in MS;

leverage the commercial presence of Zanaflex Capsules for the potential market launch of Fampridine-SR;

advance our pipeline of preclinical programs to clinical trials; and

pursue additional alliances for approved and development-stage products.

We have established an advisory team and network of well-recognized scientists, clinicians and opinion leaders in the fields of MS and SCI. Depending on their expertise, these advisors provide assistance in trial design, conduct clinical trials, keep us apprised of the latest scientific advances and help us identify and evaluate business development opportunities. In addition, we have recruited over 35 MS centers and 80 SCI rehabilitation centers in the United States and Canada to conduct our clinical trials. Our clinical management team has extensive experience in the areas of MS and SCI and works closely with this network.

Risks Associated with our Business

Our business is subject to numerous risks, as more fully described in the section entitled "Risk Factors" immediately following this prospectus summary. We may be unable, for many reasons, including those that are beyond our control, to implement our current business strategy. Those reasons

could include failure to successfully promote Zanaflex Capsules and any other future marketed products; delays in obtaining, or a failure to obtain, regulatory approval for our product candidates; and failure to maintain and to protect our proprietary intellectual property assets, among others. The information about our preclinical and clinical trials may be useful to you in evaluating our company's current stage of development and our near-term and long-term prospects; however, you should note that of the large number of drugs in development only a small percentage successfully complete the FDA regulatory approval process and are commercialized.

We have a limited operating history and, as of September 30, 2005, had an accumulated deficit of approximately \$198.5 million. We expect to incur losses for at least the next several years. We had net losses of \$26.0 million and \$44.7 million for the nine months ended September 30, 2005 and for the year ended December 31, 2004, respectively. We are unable to predict the extent of future losses or when we will become profitable, if at all. Even if we succeed in promoting Zanaflex Capsules and developing and commercializing one or more of our product candidates, we may never generate sufficient sales revenue to achieve and sustain profitability.

Corporate Information

We were incorporated in 1995 as a Delaware corporation. Our principal executive offices are located at 15 Skyline Drive, Hawthorne, New York 10532. Our telephone number is (914) 347-4300. Our website is www.acorda.com. The information on our website is not part of this prospectus.

"Acorda Therapeutics" is a registered trademark that we own and "Zanaflex" is a registered trademark that we exclusively license. We have pending U.S. trademark applications for our logo and "Zanaflex Capsules." Other trademarks, trade names and service marks used in this prospectus are the property of their respective owners.

THE OFFERING

Common stock offered	shares
Common stock outstanding after this offering	shares
Use of proceeds	We intend to use the net proceeds of this offering for sales and marketing activities, clinical and preclinical development programs and for general corporate purposes. See "Use of Proceeds."
Proposed Nasdaq National Market symbol	ACOR
Risk factors	See "Risk Factors" and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

The number of shares of common stock to be outstanding after this offering is based on the number of shares outstanding as of September 30, 2005, and reflects or assumes the following:

the conversion of all outstanding shares of our convertible preferred stock and mandatorily redeemable convertible preferred stock into 13,338,279 shares of our common stock upon the closing of this offering;

no exercise by the underwriters of their over-allotment option to purchase up to additional shares; and

a 1-for-1.3 reverse stock split of our common stock that we intend to effect prior to the effective date of the registration statement of which this prospectus forms a part.

In the table above, the number of shares of common stock outstanding after this offering excludes, as of September 30, 2005:

1,816,518 shares of common stock issuable upon the exercise of outstanding options and warrants to purchase our common stock, at a weighted average exercise price of \$5.13 per share;

756,620 restricted share grants entitling the share owners the right to acquire shares of common stock;

278,339 shares of common stock issuable upon the conversion of outstanding convertible promissory notes; and

700,572 shares of common stock reserved for issuance under our stock option plan.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table presents a summary of our historical financial information. You should read this information in conjunction with our consolidated financial statements and related notes and the information under "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. We changed our fiscal year end from June 30 to December 31, beginning with the six months ended December 31, 2003.

Pro forma amounts in the following table reflect the conversion of our outstanding convertible and mandatorily redeemable convertible preferred stock into 13,338,279 shares of common stock upon completion of this offering, assuming that shares of our preferred stock were outstanding for the entire periods presented.

	Year Ended June 30,			Six Months Ended December 31,	Year Ended December 31,	Nine Months Ended September 30,	
	2001	2002	2003	2003	2004	2004 (unaudited)	2005
(in thousands, except per share data)							
Statement of Operations Data:							
Gross sales Zanaflex	\$	\$	\$	\$	\$	\$	\$ 3,239
Less: discounts and allowances					(4,417)	(144)	(992)
Net sales					(4,417)	(144)	2,247
Grant revenue	462	132	474	382	479	445	184
Total net revenue	462	132	474	382	(3,938)	(301)	2,431
Less: cost of sales					(885)	(363)	(2,274)
Gross profit	462	132	474	382	(4,823)	(62)	157
Operating expenses:							
Research and development	6,142	11,147	17,527	16,743	21,999	18,621	9,652
Research and development related party	2,223	4,687	2,265	3,343			
Sales and marketing					4,662	2,793	9,657
General and administrative	3,489	6,636	6,388	17,069	13,283	11,034	6,339
Total operating expenses	11,854	22,470	26,180	37,155	39,944	32,448	25,648
Operating loss	(11,392)	(22,338)	(25,706)	(36,773)	(44,767)	(32,510)	(25,491)
Other income (expense):							
Interest and amortization of debt discount expense			(78)	(38)	(385)	(297)	(824)
Interest and amortization of debt discount expense related party	(443)	(408)	(369)	(184)			
Interest income	1,824	984	393	276	409	329	347
Other income			26	7	2	2	1
Total other income (expense)	1,381	576	(28)	61	26	34	(476)
Minority interest related party	699	580					
							3

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	Nine Months Ended September 30,						
Cumulative effect of change in accounting principle							
Net loss	(9,313)	(21,181)	(25,734)	(36,712)	(44,741)	(32,476)	(25,964)
Beneficial conversion feature, accretion of issuance costs, preferred dividends, and fair value of warrants issued to convertible preferred stockholders	(36)	(55)	(24,320)	(11,985)	(24,746)	(18,496)	(18,636)
Net loss allocable to common stockholders	\$ (9,349)	\$ (21,236)	\$ (50,054)	\$ (48,697)	\$ (69,487)	\$ (50,972)	\$ (44,600)
Net loss per share allocable to common stockholders basic & diluted	\$ (50.81)	\$ (111.90)	\$ (261.38)	\$ (252.87)	\$ (351.76)	\$ (259.22)	\$ (221.17)

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	Year Ended June 30,			Six Months Ended December 31,	Year Ended December 31,	Nine Months Ended September 30,	
	2001	2002	2003	2003	2004	2004	2005
						(unaudited)	
Pro forma net loss per share allocable to common stockholders basic & diluted (unaudited)					\$ (9.63)	\$	(1.92)
Weighted average shares of common stock outstanding used in computing net loss per share allocable to common stockholders basic & diluted	184	190	191	193	198	197	202
Weighted average shares of common stock outstanding used in computing pro forma net loss per share allocable to common stockholders basic & diluted (unaudited)					13,536		13,547

The following table sets forth our cash, cash equivalents and short-term investments and capitalization as of September 30, 2005:

on an actual basis giving retroactive effect to the 1-for-1.3 reverse stock split that we intend to effect prior to the effective date of the registration statement of which this prospectus forms a part;

on a pro forma basis to reflect:

our entry into a revenue interest assignment arrangement with an affiliate of Paul Royalty Fund, or PRF, on December 23, 2005, including (i) our receipt at signing of a payment in the amount of \$15.0 million, (ii) our use of approximately \$3.0 million of that payment to repay a portion of the amount we owe to GE Capital and approximately \$700,000 of that payment to pay fees and expenses related to the transaction, including expenses incurred by PRF and (iii) our recognition of a short-term liability of approximately \$11.3 million; and

the automatic conversion of all of our outstanding convertible preferred stock and mandatorily redeemable convertible preferred stock into 13,338,279 shares of common stock on the closing of this offering; and

on a pro forma basis as adjusted to reflect our receipt of net proceeds from the sale of shares of common stock in this offering at an assumed initial public offering price of \$ _____ per share (the midpoint of the estimated price range shown on the cover of this prospectus), after deducting underwriting discounts and commissions and estimated offering expenses.

As of September 30, 2005

	Actual (unaudited)	Pro Forma (unaudited)	Pro Forma As Adjusted (unaudited)
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(in thousands)

Balance Sheet Data:

Cash and cash equivalents	\$ 3,581	\$ 14,879	
Restricted cash	261	261	
Short-term investments	5,160	5,160	
Working capital	(12,203)	(10,506)	
Total assets	25,543	37,342	
Deferred product revenue Zanaflex Capsules	4,960	4,960	
Deferred product revenue Zanaflex tablets	10,686	10,686	
Current portion of notes payable	2,347	1,150	
Revenue interest liability PRF transaction		11,299	
Long-term portion of notes payable	3,534	1,731	
Long-term convertible notes payable principal amount plus accrued interest, less unamortized debt discount related party	8,695	8,695	
Mandatorily redeemable preferred stock	85,000		
Total stockholders' (deficit)	(101,669)	(16,869)	

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should consider carefully the following risk factors and the other information contained in this prospectus before you decide to purchase our common stock. Additional risks that are not currently known or foreseeable to us may materialize at a future date. The trading price of our common stock could decline if any of these risks or uncertainties occur and you might lose all or part of your investment.

Risks Related To Our Business

We have a history of operating losses and we expect to continue to incur losses and may never be profitable.

As of September 30, 2005, we had an accumulated deficit of approximately \$198.5 million. We had net losses of \$26.0 million and \$44.7 million for the nine months ended September 30, 2005, and the year ended December 31, 2004, respectively. We have had operating losses since inception as a result of our significant clinical development, research and development, general and administrative, sales and marketing and business development expenses. We expect to incur losses for at least the next several years as we expand our sales and marketing capabilities and continue our clinical trials and research and development activities.

Our prospects for achieving profitability will depend primarily on how successful we are in executing our business plan to:

market and sell Zanaflex Capsules;

obtain FDA approval for and commercialize Fampridine-SR;

continue to develop our preclinical product candidates and advance them into clinical trials; and

enter into strategic partnerships and collaboration arrangements related to our drug discovery programs and product candidates.

If we are not successful in executing our business plan, we may never achieve or may not sustain profitability.

We will be substantially dependent on sales of one product, Zanaflex Capsules, to generate revenue for the foreseeable future.

We currently derive substantially all of our revenue from the sale of Zanaflex Capsules and Zanaflex tablets, which are our only FDA-approved products. Although we currently distribute Zanaflex tablets, our marketing efforts are focused on Zanaflex Capsules and we do not, and do not intend to, actively promote Zanaflex tablets. As a result, prescriptions for Zanaflex tablets have declined and we expect that they will continue to decline. Our goal is to convert sales of Zanaflex tablets and generic tizanidine tablets to sales of Zanaflex Capsules. We believe that sales of Zanaflex Capsules will constitute a significant portion of our total revenue for the foreseeable future. If we are unable to convert tablet sales to capsule sales or are otherwise unable to increase our revenue from the sale of this product, our business, financial condition and results of operations could be adversely affected.

If we are unable to successfully differentiate Zanaflex Capsules from both Zanaflex tablets and generic tizanidine tablets we may not be able to increase sales of Zanaflex Capsules.

There are currently 11 generic versions of tizanidine tablets on the market and they are significantly cheaper than either Zanaflex Capsules or Zanaflex tablets. In 2004, these generic versions of tizanidine tablets constituted 95% of tizanidine sales in the United States. Although Zanaflex Capsules have a different pharmacokinetic profile when taken with food and are available in a higher dose than Zanaflex tablets and their generic equivalents, we may be unsuccessful in convincing prescribers, patients and third-party payors that these differences justify the higher price of Zanaflex Capsules. Prescribers may prescribe generic tizanidine tablets instead of Zanaflex Capsules, and third-party payors may establish unfavorable reimbursement policies for Zanaflex Capsules or otherwise seek

to encourage patients and prescribers to use generic tizanidine tablets instead of Zanaflex Capsules. In addition, although the FDA has determined that neither Zanaflex tablets nor generic tizanidine tablets are therapeutically equivalent, or "AB-rated," to Zanaflex Capsules, it is possible that pharmacists may improperly fill prescriptions with generic tizanidine tablets or may seek to influence patients or physicians to change prescriptions from Zanaflex Capsules to generic tizanidine tablets. If we are unable to successfully differentiate Zanaflex Capsules from Zanaflex tablets and generic tizanidine tablets in the minds of prescribers, pharmacists, patients and third-party payors, our ability to generate meaningful revenue from this product will be adversely affected.

Our company has limited sales and marketing experience and we may not be successful in building an effective sales and marketing organization to market Zanaflex Capsules to specialty physicians.

As a company, we have limited sales and marketing experience, having only launched Zanaflex Capsules in April 2005. In order to successfully commercialize Zanaflex Capsules or any other products that we may bring to market, we will need to have adequate sales, marketing and distribution capabilities. Our internal specialty sales force of 14 persons may need to be significantly expanded in the future. We may not be able to attract and train skilled sales and marketing personnel, in a timely manner or at all, or integrate and manage a growing sales and marketing organization.

Returns of Zanaflex tablets may adversely affect our results of operations.

Prior to the launch of generic tizanidine tablets in June 2002, wholesalers established larger than normal inventories of Zanaflex tablets. These inventories had expiration dates that extended to June 2005. Our return policy is to accept returns for six months before and 12 months after the product's expiration date. According to our Zanaflex asset purchase agreement with Elan, we are responsible for all returns of Zanaflex tablets after January 17, 2005. Zanaflex tablets sold by Elan can be returned to us through June 2006. In the year ended December 31, 2004, we took a \$4.1 million charge to establish a reserve for expected returns of Zanaflex tablets sold by Elan. This charge is an estimate. If returns for products not sold by us are higher than we have estimated, we will have to record additional charges, which will adversely affect our results of operations.

Our product candidates must undergo rigorous clinical testing, the results of which are uncertain and could substantially delay or prevent us from bringing them to market.

Before we can obtain regulatory approval for a product candidate, we must undertake extensive clinical testing in humans to demonstrate safety and efficacy to the satisfaction of the FDA and other regulatory agencies. Clinical trials of new product candidates sufficient to obtain regulatory marketing approval are expensive and take years to complete, and the outcome of such trials is uncertain.

Clinical development of any product candidate that we determine to take into clinical trials may be curtailed, redirected, delayed or eliminated at any time for some or all of the following reasons:

negative or ambiguous results regarding the efficacy of the product candidate;

undesirable side effects that delay or extend the trials, or other unforeseen or undesirable safety issues that make the product candidate not medically or commercially viable;

inability to locate, recruit and qualify a sufficient number of patients for our trials;

difficulty in determining meaningful end points or other measurements of success in our clinical trials;

regulatory delays or other regulatory actions, including changes in regulatory requirements;

difficulties in obtaining sufficient quantities of the product candidate manufactured under current good manufacturing practices;

delays, suspension or termination of the trials imposed by the sponsor, an independent institutional review board for a clinical trial site, or clinical holds placed upon the trials by the FDA;

FDA approval of new drugs that are more effective than our product candidates;

change in the focus of our development efforts or a re-evaluation of our clinical development strategy; and

a change in our financial position.

A delay in or termination of any of our clinical development programs could have an adverse effect on our business.

If our Phase 3 clinical trials of Fampridine-SR are unsuccessful, or if we are unable to obtain regulatory approval for this product candidate or any approval is unduly limited in scope, our business prospects will be adversely affected.

In June 2005, we initiated a Phase 3 clinical trial for Fampridine-SR for the improvement of walking ability in patients with MS. In April 2004, we released results from a Phase 2 clinical trial designed to assess the relative safety and efficacy of varying doses of Fampridine-SR in MS. Our results did not reach statistical significance for the primary endpoint in this trial. Although we have designed the current Phase 3 clinical trial to address the difficulties we encountered in interpreting the patient data from the earlier trial, we cannot be sure that the results from our current clinical trial will be statistically significant.

To achieve the primary endpoint in our current Phase 3 clinical trial for MS, we need to show statistical improvement in the walking speed of the patients in the trial and that this improvement is both sustained and clinically meaningful to these patients. If we fail to achieve the primary endpoint in this clinical trial or the results are ambiguous, we will have to determine whether to re-design our MS trial and protocols and continue with additional testing, or cease development activities in this area. Redesigning the program could be extremely costly and time-consuming. Even if we are able to achieve the primary endpoint, we will need positive results from at least one other clinical trial to support the filing of a new drug application, or NDA, with the FDA. We cannot predict how long the second trial, or any additional trial that might be required by the FDA, will take or what the cost will be.

Our Phase 3 clinical trial for Fampridine-SR in MS is being conducted pursuant to a special protocol assessment, or SPA, with the FDA and the FDA has agreed that, if successful, this trial could qualify as one of the pivotal trials needed to support regulatory approval. This SPA may not be changed by either us or the FDA. However, if the FDA determines that a substantial scientific issue essential to determining the safety or efficacy of Fampridine-SR is identified after the trial began, the FDA may alter its conclusion on the adequacy of the protocol. In addition, even if the SPA remains in place and the trial meets its primary endpoint, the FDA could determine that the overall balance of risks and benefits for Fampridine-SR is not adequate to support approval, or only justifies approval for a narrow set of uses or approval with restricted distribution or other burdensome post-approval requirements and limitations. If the FDA denies approval of Fampridine-SR in MS, FDA approval is substantially delayed, approval is granted on a narrow basis or with restricted distribution or other burdensome post-approval requirements, or if the Fampridine-SR program is terminated, our business prospects will be adversely affected.

In March 2004, we completed two Phase 3 clinical trials of Fampridine-SR in SCI in which our results failed to reach their primary endpoints. We expect to resume development of Fampridine-SR for SCI after we have completed further development of the drug for MS. We cannot predict whether future clinical trials of Fampridine-SR in SCI will achieve their primary endpoints, how long these clinical trials will take or how much they will cost.

Our other drug development programs are in early stages of development and may never be commercialized.

All of our development programs other than Fampridine-SR are in the preclinical phase. Our future success depends, in part, on our ability to select promising product candidates, complete preclinical development of these product candidates and advance them to clinical trials. These product candidates will require significant development, preclinical studies and clinical trials, regulatory clearances and substantial additional investment before they can be commercialized.

Our preclinical programs may not lead to commercially viable products for several reasons. For example, we may fail to identify promising product candidates, our product candidates may fail to be safe and effective in preclinical tests or clinical trials, or we may have inadequate financial or other resources to pursue discovery and development efforts for new product candidates. In addition, because we have limited resources, we are focusing on product candidates that we believe are the most promising. As a result, we may delay or forego pursuit of opportunities with other product candidates. From time to time, we may establish and announce certain development goals for our product candidates and programs; however, given the complex nature of the drug discovery and development process, it is difficult to predict accurately if and when we will achieve these goals. If we are unsuccessful in advancing our preclinical programs into clinical testing or in obtaining regulatory approval, our long-term business prospects will be harmed.

The pharmaceutical industry is subject to stringent regulation and failure to obtain regulatory approval will prevent commercialization of our product candidates.

Our research, development, preclinical and clinical trial activities, as well as the manufacture and marketing of any products that we may successfully develop, are subject to an extensive regulatory approval process by the FDA and other regulatory agencies abroad. The process of obtaining required regulatory approvals for drugs is lengthy, expensive and uncertain, and any regulatory approvals may contain limitations on the indicated usage of a drug, distribution restrictions or may be conditioned on burdensome post-approval study or other requirements, including the requirement that we institute and follow a special risk management plan to monitor and manage potential safety issues, all of which may eliminate or reduce the drug's market potential. Post-market evaluation of a product could result in marketing restrictions or withdrawal from the market.

The results of preclinical and Phase 1 and Phase 2 clinical studies are not necessarily indicative of whether a product will demonstrate safety and efficacy in larger patient populations, as evaluated in Phase 3 clinical trials. Additional adverse events that could impact commercial success, or even continued regulatory approval, might emerge with more extensive post-approval patient use. Of the large number of drugs in development, only a small percentage result in the submission of an NDA to the FDA and even fewer are approved for commercialization.

In order to conduct clinical trials to obtain FDA approval to commercialize any product candidate, an IND application must first be submitted to the FDA and must become effective before clinical trials may begin. Subsequently, an NDA must be submitted to the FDA, including the results of adequate and well-controlled clinical trials demonstrating, among other things, that the product candidate is safe and effective for use in humans for each target indication. In addition, the manufacturing facilities used to produce the products must comply with current good manufacturing practices and must pass a pre-approval FDA inspection. Extensive submissions of preclinical and clinical trial data are required to demonstrate the safety, efficacy, potency and purity for each intended use. The FDA may refuse to accept our regulatory submissions for filing if they are incomplete.

Clinical trials are subject to oversight by institutional review boards and the FDA to ensure compliance with the FDA's good clinical practice requirements, as well as other requirements for the protection of clinical trial participants. We depend, in part, on third-party laboratories and medical institutions to conduct preclinical studies and clinical trials for our products and other third-party organizations to perform data collection and analysis, all of which must maintain both good laboratory

and good clinical practices required by regulators. If any such standards are not complied with in our clinical trials, the resulting data from the clinical trial may not be usable or we, an institutional review board or the FDA may suspend or terminate such trial, which would severely delay our development and possibly end the development of such product candidate. We also depend upon third party manufacturers of our products to qualify for FDA approval and to comply with good manufacturing practices required by regulators. We cannot be certain that our present or future manufacturers and suppliers will comply with current good manufacturing practices. The failure to comply with good manufacturing practices may result in the termination of clinical studies, restrictions in the sale of, or withdrawal of the products from the market. Compliance by third parties with these standards and practices is outside of our direct control.

In addition, we are subject to regulation under other state and federal laws, including requirements regarding occupational safety, laboratory practices, environmental protection and hazardous substance control, and may be subject to other local, state, federal and foreign regulations. We cannot predict the impact of such regulations on us, although it could impose significant restrictions on our business and additional expenses to comply with these regulations.

Our products and product candidates may not gain market acceptance among physicians, patients and the medical community, thereby limiting our potential to generate revenue.

Market acceptance of our products and product candidates will depend on the benefits of our products in terms of safety, efficacy, convenience, ease of administration and cost effectiveness and our ability to demonstrate these benefits to physicians and patients. We believe market acceptance also depends on the pricing of our products and the reimbursement policies of government and third-party payors, as well as on the effectiveness of our sales and marketing activities. Physicians may not prescribe our products, and patients may determine, for any reason, that our products are not useful to them. For example, physicians may not believe that the benefits of Zanaflex Capsules outweigh their higher cost in relation to Zanaflex tablets or generic tizanidine tablets. The failure of any of our products or product candidates, once approved, to achieve market acceptance would limit our ability to generate revenue and would adversely affect our results of operations.

Our potential products may not be commercially viable if we fail to obtain an adequate level of reimbursement for these products by Medicaid, Medicare or other third-party payors.

Our commercial success will depend in part on third-party payors, such as government health administrative authorities, including Medicaid and Medicare, private health insurers and other such organizations, agreeing to reimburse patients for the cost of our products. Significant uncertainty exists as to the reimbursement status of newly-approved healthcare products. Our business would be materially adversely affected if the Medicaid program, Medicare program or other third-party payors were to deny reimbursement for our products or provide reimbursement only on unfavorable terms. Our business could also be adversely affected if the Medicaid program, Medicare program or other reimbursing bodies or payors limit the indications for which our products will be reimbursed to a smaller set of indications than we believe is appropriate.

Third-party payors frequently require that drug companies negotiate agreements with them that provide discounts or rebates from list prices. At present we do not have any such agreements with private third-party payors and only a small number of such agreements with government payors. If sales of Zanaflex Capsules increase we may need to offer larger discounts or discounts to a greater number of third-party payors to maintain acceptable reimbursement levels. If we were required to negotiate such agreements, there is no guarantee that we would be able to negotiate them at price levels that are profitable to us, or at all. If we are unsuccessful in maintaining reimbursement for our products at acceptable levels, our business will be adversely affected. In addition, if our competitors reduce the prices of their products, or otherwise demonstrate that they are more cost effective than our products,

this may result in a greater level of reimbursement for their products relative to our products, which would reduce our sales and adversely affect our results of operations.

We may experience pressure to lower prices on our approved products due to new and/or proposed federal legislation.

Federal legislation enacted in December 2003 added an outpatient prescription drug benefit to Medicare, effective January 2006. In the interim, Congress has established a discount drug card program for Medicare beneficiaries. Both benefits will be provided primarily through private entities, which will attempt to negotiate price concessions from pharmaceutical manufacturers. These negotiations may increase pressure to lower prescription drug prices. While the new law specifically prohibits the U.S. government from interfering in price negotiations between manufacturers and Medicare drug plan sponsors, some members of Congress are pursuing legislation that would permit the U.S. government to use its enormous purchasing power to demand discounts from pharmaceutical companies, thereby creating de facto price controls on prescription drugs. In addition, the new law contains triggers for Congressional consideration of cost containment measures for Medicare in the event Medicare cost increases exceed a certain level. These cost containment measures could include limitations on prescription drug prices. This Medicare prescription drug coverage legislation, as well as additional healthcare legislation that may be enacted at a future date, could reduce our sales and adversely affect our results of operations.

If our competitors develop and market products that are more effective, safer or more convenient than our approved products, or obtain marketing approval before we obtain approval of future products, our commercial opportunity will be reduced or eliminated.

Competition in the pharmaceutical and biotechnology industries is intense and is expected to increase. Composition of matter patents on tizanidine, the active ingredient in Zanaflex Capsules and Zanaflex tablets, expired in 2002. There are currently 11 generic versions of tizanidine tablets on the market. To the extent that we are not able to differentiate Zanaflex Capsules from Zanaflex tablets and generic tizanidine tablets and/or pharmacists improperly substitute generic tizanidine tablets when filling prescriptions for Zanaflex Capsules, we may be unable to convert a meaningful amount of sales of Zanaflex tablets and generic tizanidine tablets to Zanaflex Capsules and our ability to generate revenue from this product will be adversely affected. Although no other FDA-approved capsule formulation of tizanidine exists, another company could develop a capsule or other formulation of tizanidine that competes with Zanaflex Capsules.

Many biotechnology and pharmaceutical companies, as well as academic laboratories, are involved in research and/or product development for various neurological diseases, including MS and SCI. We are aware of a company developing a sodium/potassium channel blocker and a second company developing an immediate release form of fampridine, both of which may compete with Fampridine-SR, if approved. In certain circumstances, pharmacists are not prohibited from formulating certain drug compounds to fill prescriptions on an individual patient basis. We are aware that at present compounded fampridine is used by some people with MS or SCI and it is possible that some people will want to continue to use compounded formulations even if Fampridine-SR is approved. Several companies are engaged in developing products that include novel immune system approaches and cell transplant approaches to remyelination for the treatment of people with MS. These programs are in early stages of development and may compete in the future with Fampridine-SR or our preclinical candidates.

Our competitors may succeed in developing products that are more effective, safer or more convenient than our products or the ones we have under development or that render our approved or proposed products or technologies noncompetitive or obsolete. In addition, our competitors may achieve product commercialization before we do. If any of our competitors develops a product that is more effective, safer or more convenient for patients, or is able to obtain FDA approval for

commercialization before we do, we may not be able to achieve market acceptance for our products, which would adversely affect our ability to generate revenues and recover the substantial development costs we have incurred and will continue to incur.

Our products may be subject to competition from lower-priced versions of such products and competing products imported into the United States from Canada, Mexico and other countries where there are government price controls or other market dynamics that make the products lower priced.

Our operations could be curtailed if we are unable to obtain any necessary additional financing on favorable terms or at all.

On September 30, 2005, on a pro forma as-adjusted basis after giving effect to this offering, we would have had approximately \$ million in cash, cash equivalents and short-term investments. Although we anticipate this will be sufficient to fund our operations for approximately the next 24 months, we have several product candidates in various stages of development, and all will require significant further investment to develop, test and obtain regulatory approval prior to commercialization. We will likely need to seek additional equity or debt financing or strategic collaborations to continue our product development activities, and could require substantial funding to commercialize any products that we successfully develop. We may also require additional financing to support and expand our commercialization of Zanaflex Capsules. We do not currently have any funding commitments or arrangements with third parties to provide funding. We may not be able to raise additional capital on favorable terms or at all.

To the extent that we are able to raise additional capital through the sale of equity securities, the issuance of those securities would result in dilution to our stockholders. Holders of such new equity securities may also have rights, preference or privileges that are senior to yours. If additional capital is raised through the incurrence of indebtedness, we may become subject to various restrictions and covenants that could limit our ability to respond to market conditions, provide for unanticipated capital investments or take advantage of business opportunities. To the extent funding is raised through collaborations or intellectual property-based financings, we may be required to give up some or all of the rights and related intellectual property to one or more of our products, product candidates or preclinical programs. If we are unable to obtain sufficient financing on favorable terms when and if needed, we may be required to reduce, defer or discontinue one or more of our product development programs or devote fewer resources to marketing Zanaflex Capsules.

Under our financing arrangement with PRF, upon the occurrence of certain events, PRF may require us to repurchase the right to receive revenues that we assigned to it or may foreclose on certain assets that secure our obligations to PRF. Any exercise by PRF of its right to cause us to repurchase the assigned right or any foreclosure by PRF could adversely affect our results of operations and our financial condition.

On December 23, 2005, we entered into a Revenue Interests Assignment Agreement with PRF pursuant to which we assigned to PRF the right to receive a portion of our net revenues from Zanaflex Capsules, Zanaflex tablets and any future Zanaflex products. To secure our obligations to PRF, we also granted PRF a security interest in substantially all of our assets related to Zanaflex.

Under our arrangement with PRF, upon the occurrence of certain events, including if we experience a change of control, undergo certain bankruptcy events, transfer any of our interests in Zanaflex (other than pursuant to a license agreement, development, commercialization, co-promotion, collaboration, partnering or similar agreement), transfer all or substantially all of our assets, or breach certain of the covenants, representations or warranties under the Revenue Interests Assignment Agreement, PRF may (i) require us to repurchase the rights we assigned to it at the "put/call price" in effect on the date such right is exercised or (ii) foreclose on the Zanaflex assets that secure our obligations to PRF. Except in the case of certain bankruptcy events, if PRF exercises its right to cause us to repurchase the rights we assigned to it, PRF may not foreclose unless we fail to pay the put/call price as required. The put/call price on a given date is the greater of (i) 150% of all payments made by

PRF to us as of such date, less all payments received by PRF from us as of such date, and (ii) an amount that would generate an internal rate of return to PRF of 25% on all payments made by PRF to us as of such date, taking into account the amount and timing of all payments received by PRF from us as of such date.

If PRF were to exercise its right to cause us to repurchase the right we assigned to it, we cannot assure you that we would have sufficient funds available to pay the put/call price in effect at that time. Even if we have sufficient funds available, we may have to use funds that we planned to use for other purposes and our results of operations and financial condition could be adversely affected. If PRF were to foreclose on the Zanaflex assets that secure our obligations to PRF, our results of operations and financial condition could also be adversely affected. Because PRF's right to cause us to repurchase the rights we assigned to it is triggered by, among other things, a change in control, transfer of any of our interests in Zanaflex (other than pursuant to a license agreement, development, commercialization, co-promotion, collaboration, partnering or similar agreement) or transfer of all or substantially all of our assets, the existence of that right could discourage us or a potential acquirer from entering into a business transaction that would result in the occurrence of any of those events.

The loss of our key management and scientific personnel may hinder our ability to execute our business plan.

Our success depends on the continuing contributions of our management team and scientific personnel, and maintaining relationships with our scientific and medical network and the network of centers in the United States and Canada that conducts our clinical trials. We are highly dependent on the services of Dr. Ron Cohen, our President and Chief Executive Officer, as well as the other principal members of our management and scientific staff. Our success depends in large part upon our ability to attract and retain highly qualified personnel. We face intense competition in our hiring efforts with other pharmaceutical and biotechnology companies, as well as universities and nonprofit research organizations, and we may have to pay higher salaries to attract and retain qualified personnel. With the exception of Dr. Ron Cohen, we do not maintain "key man" life insurance policies on the lives of our officers, directors or employees. The loss of one or more of our key employees, or our inability to attract additional qualified personnel, could substantially impair our ability to implement our business plan.

We face an inherent risk of liability in the event that the use or misuse of our products results in personal injury or death.

If the use or misuse of Zanaflex Capsules or any other FDA-approved products we may sell in the future harms people, we may be subject to costly and damaging product liability claims brought against us by consumers, healthcare providers, pharmaceutical companies, third-party payors or others. The use of our product candidates in clinical trials could also expose us to product liability claims. We currently maintain a product liability insurance policy that includes coverage of our clinical trials. This insurance policy has a \$10 million per claim limit and the aggregate amount of claims under the policy is also capped at \$10 million. We cannot predict all of the possible harms or side effects that may result from the use of our products or the testing of product candidates and, therefore, the amount of insurance coverage we currently have may not be adequate to cover all liabilities or defense costs we might incur. A product liability claim or series of claims brought against us could give rise to a substantial liability that could exceed our resources. Even if claims are not successful, the costs of defending such claims and potential adverse publicity could be harmful to our business.

We are subject to various federal and state laws regulating the marketing of Zanaflex Capsules and, if we do not comply with these regulations, we could face substantial penalties.

Our sales, promotion and other activities related to Zanaflex Capsules, or any of our other products under development following their regulatory approval, are subject to regulatory and law enforcement authorities in addition to the FDA, including the Federal Trade Commission, the

Department of Justice, and state and local governments. We are subject to various federal and state laws pertaining to health care "fraud and abuse," including both federal and state anti-kickback laws. Anti-kickback laws make it illegal for a prescription drug manufacturer to solicit, offer, receive or pay any remuneration as an inducement for the referral of business, including the use, recommendation, purchase or prescription of a particular drug. The federal government has published regulations that identify "safe harbors" or exemptions for certain payment arrangements that do not violate the anti-kickback statutes. Although we seek to comply with these statutes, it is possible that our practices, or those of our contract sales force, might be challenged under anti-kickback or similar laws. Violations of fraud and abuse laws may be punishable by civil or criminal sanctions, including fines and civil monetary penalties, and future exclusion from participation in government healthcare programs.

We may be subject to penalties if we fail to comply with post-approval legal and regulatory requirements and our products could be subject to restrictions or withdrawal from the market.

Any product for which we currently have or may obtain marketing approval, along with the associated manufacturing processes, any post-approval clinical data that we might be required to collect and the advertising and promotional activities for the product, are subject to continual recordkeeping and reporting requirements, review and periodic inspections by the FDA and other regulatory bodies. Regulatory approval of a product may be subject to limitations on the indicated uses for which the product may be marketed or to other restrictive conditions of approval that limit our ability to promote, sell or distribute a product. Furthermore, any approval may contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product.

We have an outstanding commitment with the FDA inherited from Elan to evaluate Zanaflex Capsules for pediatric use by December 2005 in accordance with the requirements of the Pediatric Research Equity Act. We intend to discuss this matter with the FDA and seek a deferral or waiver of the requirement to conduct pediatric studies. Without a waiver, we will be required to conduct a pediatric study of Zanaflex Capsules and incur the related costs of this clinical trial.

Our advertising and promotion are subject to stringent FDA rules and oversight. In particular, the claims in our promotional materials and activities must be consistent with the FDA approvals for our products, and must be appropriately substantiated and fairly balanced with information on the safety risks and limitations of the products. Any free samples we distribute to physicians must be carefully monitored and controlled, and must otherwise comply with the requirements of the Prescription Drug Marketing Act, as amended, and FDA regulations. We must continually review adverse event information that we receive concerning our drugs and make expedited and periodic adverse event reports to the FDA and other regulatory authorities.

In addition, the research, manufacturing, distribution, sale and promotion of drug and biological products 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, the U.S. Department of Justice and individual U.S. Attorney offices within the Department of Justice, and state and local governments. For example, sales, marketing and scientific/educational grant programs must comply with the anti-kickback and fraud and abuse provisions of the Social Security Act, as amended, the False Claims Act, as amended, the privacy provisions of the Health Insurance Portability and Accountability Act and similar state laws. Pricing and rebate programs must comply with the Medicaid rebate requirements of the Omnibus Budget Reconciliation Act of 1990, as amended, and the Veterans Health Care Act of 1992, as amended. If products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. All of these activities are also potentially subject to federal and state consumer protection and unfair competition laws.

We may be slow to adapt, or we may not be able to adapt, to changes in existing regulatory requirements or adoption of new legal or regulatory requirements or policies. Later discovery of

previously unknown problems with our products, manufacturing processes, or failure to comply with regulatory requirements, may result in:

voluntary or mandatory recalls;

voluntary or mandatory patient or physician notification;

withdrawal of product approvals;

product seizures;

restrictions on, or prohibitions against, marketing our products;

restrictions on importation of our product candidates;

fines and injunctions;

civil and criminal penalties;

exclusion from participation in government programs; and

suspension of review or refusal to approve pending applications.

State pharmaceutical marketing compliance and reporting requirements may expose us to regulatory and legal action by state governments or other government authorities.

In recent years, several states, including California, Vermont, Maine, Minnesota, New Mexico and West Virginia, have enacted legislation requiring pharmaceutical companies to establish marketing compliance programs and file periodic reports with the state on sales, marketing, pricing and other activities. For example, California has enacted a statute requiring pharmaceutical companies to adopt a comprehensive compliance program that is in accordance with the Office of Inspector General of the Department of Health and Human Services *Compliance Program Guidance for Pharmaceutical Manufacturers*. This compliance program must include policies for compliance with the Pharmaceutical Research and Manufacturers of America *Code on Interactions with Healthcare Professionals*, as well as a specific annual dollar limit on gifts or other items given to individual healthcare professionals in California. The law requires posting policies on a company's public web site along with an annual declaration of compliance.

Vermont, Maine, Minnesota, New Mexico, and West Virginia have also enacted statutes of varying scope that impose reporting and disclosure requirements upon pharmaceutical companies pertaining to drug pricing and payments and costs associated with pharmaceutical marketing, advertising and promotional activities, as well as restrictions upon the types of gifts that may be provided to healthcare practitioners. Similar legislation is being considered in other states. Many of these requirements are new and uncertain and the penalties for failure to comply with these requirements are unclear. We are not aware of any companies against which fines or penalties have been assessed under these state reporting and disclosure laws to date. We are currently in the process of developing a formal compliance infrastructure and standard operating procedures to comply with such laws. Unless we are in full compliance with these laws, we could face enforcement action and fines and other penalties, and could receive adverse publicity.

If we seek to market our products in foreign jurisdictions, we will need to obtain regulatory approval in these jurisdictions.

In order to market our products in the European Union and many other foreign jurisdictions, we must obtain separate regulatory approvals and comply with numerous and varying regulatory requirements. Approval procedures vary among countries and can involve additional clinical testing. The time required to obtain approval may differ from that required to obtain FDA approval. Should we decide to market our products

abroad, we may fail to obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA. We may not be able to file for, and may not receive, necessary regulatory approvals to commercialize our products in any foreign market, which could adversely affect our business prospects.

If we use biological and hazardous materials in a manner that causes injury, we may be liable for damages.

Our research and development activities involve the controlled use of potentially harmful biological materials, hazardous materials and chemicals that are subject to federal, state and local laws and regulations governing their use, storage, handling and disposal. These materials include ketamine, buprinex, sodium peantabarbitol, dehydrated alcohol, xylene petroleum, ether methanol, ethyl alcohol, acetoneitrile UV, hexanes, chloroform, alcohol-propyl, alcohol isopropyl and ether formaldehyde solution 37%. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. If we fail to comply with environmental regulations, we could be subject to criminal sanctions and/or substantial liability for any damages that result, and any substantial liability could exceed our resources. We currently maintain a general liability insurance policy that has a \$2 million per claim limit and also caps aggregate claims at \$2 million. In addition, we have an umbrella insurance policy that covers up to \$9 million of liability in excess of the general liability policy's \$2 million limit. This amount of insurance coverage may not be adequate to cover all liabilities or defense costs we might incur. In addition, the cost of compliance with environmental and health and safety regulations may be substantial.

Risks Related to Our Dependence on Third Parties

We currently have no manufacturing capabilities and are substantially dependent upon Elan, Novartis and other third party suppliers to manufacture Zanaflex Capsules, Zanaflex tablets and Fampridine-SR.

We do not own or operate, and currently do not plan to own or operate, manufacturing facilities for production of Zanaflex Capsules, Zanaflex tablets or Fampridine-SR. We rely and expect to continue to rely on third parties for the production of our products and clinical trial materials.

We rely on a single manufacturer, Elan, for the supply of Zanaflex Capsules. Zanaflex Capsules are manufactured using Elan's proprietary SODAS (spheroidal oral drug absorption system) multiparticulate drug delivery technology. Elan is obligated, in the event of a failure to supply Zanaflex Capsules, to use commercially reasonable efforts to assist us in either producing Zanaflex Capsules ourselves or in transferring production of Zanaflex Capsules to a third-party manufacturer, provided that such third-party manufacturer is not a technological competitor of Elan. In the event production is transferred to a third party, the FDA may require us to demonstrate through bioequivalence studies and laboratory testing that the product made by the new supplier is equivalent to the current Zanaflex Capsules before we could distribute products from that supplier. The process of transferring the technology and qualifying the new supplier could take a year or more.

Under our supply agreement with Elan, we provide Elan with monthly written 18-month forecasts and with annual written two-year forecasts of our supply requirements for Zanaflex Capsules. In each of the five months following the submission of our written 18-month forecast we are obligated to purchase the quantity specified in the forecast, even if our actual requirements are greater or less. Elan is not obligated to supply us with quantities in excess of our forecasted amounts, although it has agreed to use commercially reasonable efforts to do so. Because we have a limited history of selling Zanaflex Capsules, our forecasts of our supply requirements may be inaccurate. As a result, we may have an excess or insufficient supply of Zanaflex Capsules.

The Elan facility located in Gainesville, Georgia, which is responsible for bottling Zanaflex Capsules, has been operating under a court-ordered consent decree and injunction since 2001, which were imposed following adverse FDA inspections and FDA allegations that the facility was failing to comply with current good manufacturing requirements. These prior issues were not related to the manufacture of our products. If, however, Elan fails to comply with the requirements of the consent decree and injunction, it could be held in contempt and the facility could be shut down and the manufacturing of our products halted or interrupted.

We currently rely on Novartis for our supply of Zanaflex tablets and tizanidine, the active pharmaceutical ingredient, or API, in both Zanaflex Capsules and Zanaflex tablets. Under a supply

agreement we assumed from Elan, Novartis is responsible for manufacturing Zanaflex tablets and tizanidine for us through February 2007. This includes the tizanidine that Elan uses to manufacture Zanaflex Capsules for us. Novartis currently produces tizanidine, but has arranged with another party to formulate tablets. We have arranged for another company, Sharp Corporation ("Sharp"), to package and bottle Zanaflex tablets. Novartis has informed us that it intends to discontinue production of tizanidine by the end of 2005. It is our understanding that Novartis is currently in the process of qualifying an alternative tizanidine manufacturer. We have established relationships with the companies that currently formulate, bottle and package the tablets, however, we do not have a relationship with an alternative manufacturer of tizanidine. By the expiration of our contract with Novartis in 2007, we will need to have established a direct relationship with an alternative supplier of tizanidine.

We also rely exclusively on Elan to supply us with our requirements for Fampridine-SR. Elan relies on a third-party manufacturer to supply fampridine, the API in Fampridine-SR. Under our supply agreement with Elan, we are obligated to purchase at least 75% of our yearly supply of Fampridine-SR from Elan, and we are required to make compensatory payments if we do not purchase 100% of our requirements from Elan, subject to certain exceptions. We and Elan have agreed that we may purchase up to 25% of our annual requirements from Patheon, Inc., a mutually agreed-upon and qualified second manufacturing source, without compensatory payment.

Our dependence on others to manufacture our marketed products and clinical trial materials may adversely affect our ability to develop and commercialize our products on a timely and competitive basis.

If third-party contract research organizations do not perform in an acceptable and timely manner, our preclinical testing or clinical trials could be delayed or unsuccessful.

We do not have the ability to conduct all aspects of our preclinical testing or clinical trials ourselves. We rely and will continue to rely on clinical investigators, third-party contract research organizations and consultants to perform some or all of the functions associated with preclinical testing or clinical trials. The failure of any of these vendors to perform in an acceptable and timely manner in the future, including in accordance with any applicable regulatory requirements, such as good clinical and laboratory practices, or preclinical testing or clinical trial protocols, could cause a delay or otherwise adversely affect on our preclinical testing or clinical trials and ultimately on the timely advancement of our development programs.

We rely on a third party to provide the sales representatives to market Zanaflex Capsules to primary care physicians.

We recently entered into a contract with Cardinal Health pursuant to which it provides us with approximately 160 sales representatives who market Zanaflex Capsules to primary care physicians. These sales representatives are not our employees and we do not have control over their performance or compliance with applicable laws. Their failure to increase prescriptions for Zanaflex Capsules from the targeted primary care physicians would negatively impact our sales growth, and their failure to comply with applicable laws could subject us to liability.

Risks Related to Our Intellectual Property

If we cannot protect our intellectual property, our ability to develop and commercialize our products will be severely limited.

Our success will depend in part on our and our licensors' ability to obtain, maintain and enforce patent protection for the technologies, compounds and products, if any, resulting from our licenses and development programs. Without protection for the intellectual property we use, other companies could offer substantially identical products for sale without incurring the sizable discovery, development and licensing costs that we have incurred. Our ability to recover these expenditures and realize profits upon the sale of products could be diminished.

We have in-licensed or are the assignee of more than 25 U.S. patents, more than 60 foreign patents and over 65 patent applications pending in the United States or abroad for our own technologies and for technologies from our in-licensed programs. The process of obtaining patents can be time consuming and expensive with no certainty of success. Even if we spend the necessary time and money, a patent may not issue or it may not have sufficient scope or strength to protect the technology it was intended to protect or to provide us with any commercial advantage. We may never be certain that we were the first to develop the technology or that we were the first to file a patent application for the particular technology because U.S. patent applications are confidential until they are published, and publications in the scientific or patent literature lag behind actual discoveries. The degree of future protection for our proprietary rights will remain uncertain if our pending patent applications are not approved for any reason or if we are unable to develop additional proprietary technologies that are patentable. Furthermore, third parties may independently develop similar or alternative technologies, duplicate some or all of our technologies, design around our patented technologies or challenge our issued patents or the patents of our licensors.

We may initiate actions to protect our intellectual property and in any litigation in which our patents or our licensors' patents are asserted, a court may determine that the patents are invalid or unenforceable. Even if the validity or enforceability of these patents is upheld by a court, a court may not prevent alleged infringement on the grounds that such activity is not covered by the patent claims. In addition, effective intellectual property enforcement may be unavailable or limited in some foreign countries. Any litigation, whether to enforce our rights to use our or our licensors' patents or to defend against allegations that we infringe third party rights, would be costly, time consuming, and may distract management from other important tasks.

As is commonplace in the biotechnology and pharmaceutical industry, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. To the extent our employees are involved in research areas that are similar to those areas in which they were involved at their former employers, we may be subject to claims that such employees and/or we have inadvertently or otherwise used or disclosed the alleged trade secrets or other proprietary information of the former employers. Litigation may be necessary to defend against such claims, which could result in substantial costs and be a distraction to management and which could have an adverse effect on us, even if we are successful in defending such claims.

We also rely in our business on trade secrets, know-how and other proprietary information. We seek to protect this information, in part, through the use of confidentiality agreements with employees, consultants, advisors and others. Nonetheless, those agreements may not provide adequate protection for our trade secrets, know-how or other proprietary information and prevent their unauthorized use or disclosure. To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to our proposed products, disputes may arise as to the proprietary rights to such information which may not be resolved in our favor. The risk that other parties may breach confidentiality agreements or that our trade secrets become known or independently discovered by competitors, could adversely affect us by enabling our competitors, who may have greater experience and financial resources, to copy or use our trade secrets and other proprietary information in the advancement of their products, methods or technologies. Policing unauthorized use of our or our licensors' intellectual property is difficult, expensive and time-consuming, and we may be unable to determine the extent of any unauthorized use. Adequate remedies may not exist in the event of unauthorized use or disclosure.

If third parties successfully claim that we infringed their patents or proprietary rights, our ability to continue to develop and successfully commercialize our product candidates could be delayed.

Third parties may claim that we or our licensors or suppliers are infringing their patents or are misappropriating their proprietary information. In the event of a successful claim against us or our

licensors or suppliers for infringement of the patents or proprietary rights of others relating to any of our marketed products or product candidates, we may be required to:

pay substantial damages;

stop using our technologies;

stop certain research and development efforts;

develop non-infringing products or methods, which may not be feasible; and

obtain one or more licenses from third parties.

In addition, from time to time, we become aware of third parties who have, or claim to have, intellectual property rights covering matters such as methods for doing business, conducting research, diagnosing diseases or prescribing medications that are alleged to be broadly applicable across sectors of the industry, and we may receive assertions that these rights apply to us. The existence of such intellectual property rights could present a risk to our business.

A license required under any patents or proprietary rights held by a third party may not be available to us, or may not be available on acceptable terms. If we or our licensors or suppliers are sued for infringement we could encounter substantial delays in, or be prohibited from developing, manufacturing and commercializing our product candidates and advancing our preclinical programs.

We are dependent on our license agreements and if we fail to meet our obligations under these license agreements, or our agreements are terminated for any reason, we may lose our rights to our in-licensed patents and technologies.

We are dependent on licenses for intellectual property related to Zanaflex, Fampridine-SR and all of our preclinical programs. Our failure to meet any of our obligations under these license agreements could result in the loss of our rights to this intellectual property. If we lose our rights under any of these license agreements, we may be unable to commercialize a product that uses licensed intellectual property.

We could lose our rights to Fampridine-SR under our license agreement with Elan in countries in which we have a license, including the United States, if we fail to file regulatory approvals within a commercially reasonable time after completion and receipt of positive data from all preclinical and clinical studies required for the related NDA, or any NDA-equivalent. We could also lose our rights under our license agreement with Elan if we fail to launch a product in such countries, within 180 days of NDA or equivalent approval. Elan could also terminate our license agreement if we fail to make payments due under the license agreement. If we lose our rights to Fampridine-SR our prospects for generating revenue and recovering our substantial investment in the development of this product would be materially harmed.

Risks Relating To The Offering

There is no existing market for our common stock. An active trading market may not develop and you may not be able to resell your shares at or above the initial offering price.

Prior to this offering, there has been no public market for our common stock. We cannot predict the extent to which trading will lead to the development of an active and liquid trading market in our common stock. The initial public offering price of our common stock was determined by negotiations between the representatives of the underwriters and us and may not be indicative of future market prices. The market price for our common stock may decline below the initial offering price. Our stock price could fluctuate significantly due to a number of factors, including:

publicity regarding actual or potential clinical trial results relating to products under development by us or our competitors;

conditions or trends in the pharmaceutical or biotechnology industries;

litigation and other developments relating to our patents or other proprietary rights or those of our competitors;

governmental regulation and legislation in the United States and foreign countries;

changes in securities analysts' estimates of our performance or our failure to meet analysts' expectations;

sales of substantial amounts of our stock;

variations in product revenue and profitability; and

variations in our anticipated or actual operating results.

Many of these factors are beyond our control. In addition, the stock markets in general, and the Nasdaq National Market and the market for biopharmaceutical companies in particular, have experienced extreme price and volume fluctuations recently. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. These broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance.

As a new investor, you will experience immediate and substantial dilution in the net tangible book value of your investment and may experience further dilution in the future.

The initial public offering price for this offering is substantially higher than the pro forma net tangible book value per share of our outstanding common stock. Investors purchasing shares of our common stock in this offering will pay more for their shares than the amount paid by existing stockholders who acquired shares prior to this offering. Accordingly, if you purchase common stock in this offering, you will incur immediate dilution in pro forma net tangible book value of approximately \$ per share. If the holders of outstanding options or warrants exercise these options or warrants, you will incur further dilution. Investors purchasing shares of our common stock in this offering will contribute approximately % of the total amount we have raised since our inception, but will own only approximately % of our total common stock immediately following the completion of this offering.

Future sales of our common stock could cause our stock price to decline.

Sales of substantial amounts of our common stock in the public market after this offering, or the possibility of those sales or other distributions, could put downward pressure on the market price of our common stock. After the consummation of this offering, our current stockholders will be subject to a 180-day lock up on the sale of their shares. After the lock-up expires, based on the number of shares outstanding as of December 31, 2005, 19,698,104 shares of common stock will be eligible for sale subject to Rule 144, Rule 144(k) or Rule 701. The remaining 913,155 shares held by existing stockholders will be eligible for sale from time to time in the future under Rule 144, Rule 144(k) or Rule 701 and holders of 13,338,279 shares of our common stock will have rights to cause us to file a registration statement on their behalf and to include their shares in registration statements that we may file on our behalf or on behalf of other stockholders. By exercising their registration rights and selling a large number of shares, these holders could cause the price of our common stock to decline.

If our officers, directors and largest stockholders choose to act together, they may be able to control the outcome of a stockholder vote.

After this offering, our officers, directors and holders of 5% or more of our outstanding common stock will beneficially own approximately % of our common stock. Moreover, a majority of our directors are principals or representatives of entities that own substantial amounts of our common stock. As a result, these stockholders, acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval or mergers or other business combination transactions. The interests of this group of stockholders may not always

coincide with the interests of other stockholders, and they may act in a manner that advances their best interests and not necessarily those of other stockholders.

Certain provisions of Delaware law, our certificate of incorporation and our by-laws may delay or prevent an acquisition of us that stockholders may consider favorable or may prevent efforts by our stockholders to change our directors or our management, which could decrease the value of your shares.

Following this offering, our certificate of incorporation and by-laws will contain provisions that could make it more difficult for a third party to acquire us, and may have the effect of preventing or hindering any attempt by our stockholders to replace our current directors or officers. These provisions include:

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 with rights, preferences and privileges determined by the board of directors. The ability to authorize and issue preferred stock with voting or other rights or preferences makes it possible for our board of directors to issue preferred stock with super voting, special approval, dividend or other rights or preferences on a discriminatory basis that could impede the success of any attempt to acquire us.

Our certificate of incorporation provides for the board of directors to be divided into three classes, each with staggered three-year terms. As a result, only one class of directors will be elected at each annual meeting of stockholders, and each of the two other classes of directors will continue to serve for the remainder of their respective three-year terms, limiting the ability of stockholders to reconstitute the board of directors.

Our certificate of incorporation requires the vote of the holders of 75% of the outstanding shares of our common stock in order to take certain actions, including amendment of our bylaws, removal of directors for cause and certain amendments to our certificate of incorporation.

As a Delaware corporation, we are also subject to certain anti-takeover provisions of Delaware law. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holders has held the stock for three years or, among other things, the board of directors has approved the transaction. Our board of directors could rely on Delaware law to prevent or delay an acquisition of us, which could have the effect of reducing your ability to receive a premium on your common stock.

Because we do not intend to pay dividends, you will benefit from an investment in our common stock only if it appreciates in value.

We have not paid 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. As a result, we do not expect to pay any cash dividends in the foreseeable future. The success of your investment in our common stock will depend entirely upon any future appreciation. There is no guarantee that our common stock will appreciate in value after the offering or even maintain the price at which you purchased your shares.

FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business," contains forward-looking statements. These statements relate to future events or to our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "predict," "potential," "continue," or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements, since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, levels of activity, performance or achievements. Factors that may cause actual results to differ materially from current expectations, which we describe in more detail elsewhere in this prospectus under the heading "Risk Factors," include, but are not limited to:

inability to successfully market and sell any approved product;

unfavorable results of our preclinical or clinical testing;

delays in obtaining, or failure to obtain FDA approvals;

increased regulation by the FDA and other agencies;

the introduction of competitive products;

impairment of license, patent or other proprietary rights;

failure to implement our strategy; and

changes in our financial performance and cash requirements.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. Any forward-looking statement you read in this prospectus reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

The safe harbor for forward-looking statements contained in the Securities Litigation Reform Act of 1995 protects companies from liability for their forward looking statements if they comply with the requirements of the Act. The Act does not provide this protection for initial public offerings.

USE OF PROCEEDS

We estimate that we will receive approximately \$ million in net proceeds from the sale of our common stock in this offering, or approximately \$ million if the underwriters exercise their over-allotment option in full, based on an assumed initial public offering price of \$ per share (the midpoint of the estimated price range shown on the cover of this prospectus) after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use the proceeds of this offering as follows:

approximately \$10.0 million for sales and marketing activities, the payment of sales-based milestones to Elan for Zanaflex Capsules and market development for Fampridine-SR, if approved by the FDA;

approximately \$25.0 million principally to complete our current Fampridine-SR clinical trial and to conduct other activities related to the filing of an NDA for Fampridine-SR, as well as for research and development, including our preclinical studies related to our Chondroitinase, Neuregulin and Remyelinating Antibodies programs; and

the remainder for general corporate purposes, including to fund working capital, capital expenditures, and for the potential acquisition or licensing of pharmaceutical products or product candidates that are complementary to our own.

We expect that the proceeds of this offering will allow us to complete our current Fampridine-SR Phase 3 clinical trial. The amount and timing of our actual expenditures on sales and marketing and our research and development programs will depend on numerous factors, including the progress of our research and development activities, the progress of our clinical trials and regulatory approval process, the number and breadth of our product development programs, our success in marketing Zanaflex Capsules, and any in-licensing and acquisition activities. Our research programs are in an early stage of development and it is difficult to predict what advances, if any, we will make in our research activities using the proceeds of this offering. Accordingly, we will retain broad discretion in the allocation and use of the proceeds of this offering. Currently we have no specific plans or commitments related to any acquisitions or licenses.

Pending application of the net proceeds, we intend to invest them in short-term, investment-grade, interest-bearing instruments.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the further development and expansion of our business and do not intend to pay cash dividends for the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments and other factors our board of directors deems relevant.

CAPITALIZATION

The following table sets forth our cash, cash equivalents and short-term investments and capitalization as of September 30, 2005:

on an actual basis giving retroactive effect to the 1-for-1.3 reverse stock split that we intend to effect prior to the effective date of the registration statement of which this prospectus forms a part;

on a pro forma basis to reflect:

our entry into a revenue interest assignment arrangement with PRF on December 23, 2005, including (i) our receipt at signing of a payment in the amount of \$15.0 million, (ii) our use of approximately \$3.0 million of that payment to repay a portion of the amount we owe to GE Capital and approximately \$700,000 of that payment to pay fees and expenses related to the transaction, including expenses incurred by PRF and (iii) our recognition of a short-term liability of approximately \$11.3 million; and

the automatic conversion of all of our outstanding convertible preferred stock and mandatorily redeemable convertible preferred stock into 13,338,279 shares of common stock on the closing of this offering; and

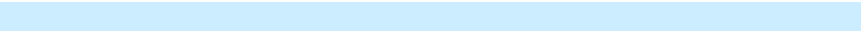
on a pro forma basis as adjusted to reflect our receipt of net proceeds from the sale of shares of common stock in this offering at an assumed initial public offering price of \$ per share (the midpoint of the estimated price range shown on the cover of this prospectus), after deducting underwriting discounts and commissions and estimated offering expenses.

As of September 30, 2005

	Actual (unaudited)	Pro Forma (unaudited)	Pro Forma As Adjusted (unaudited)
	(in thousands)		
Cash, cash equivalents and short-term investments	\$ 8,741	\$ 20,039	\$
Long-term portion of notes payable	3,534	1,731	
Long-term convertible notes payable principal amount plus accrued interest, less unamortized debt discount Related party	8,695	8,695	
Mandatorily Redeemable Convertible Preferred Stock, \$.001 par value: 7,472,612 shares of Series E convertible preferred stock authorized, issued and outstanding at September 30, 2005; 10,204,047 shares of	85,000		

As of September 30, 2005

Series I convertible preferred stock authorized, issued and outstanding at September 30, 2005; 112,790,246 shares of Series J convertible preferred stock authorized, 112,790,233 shares issued and outstanding at September 30, 2005; 1,533,330 shares of Series K convertible preferred stock authorized, 1,533,327 shares issued and outstanding at September 30, 2005; 0 shares issued and outstanding on a pro forma and pro forma as adjusted basis



Stockholders' equity (deficit):

Non-redeemable Convertible Preferred Stock, \$.001 par value:		
1,306,068 shares of Series A convertible preferred stock;		
900,000 shares of Series B convertible preferred stock;		
333,333 shares of Series C convertible preferred stock; 0 shares		
of Series D preferred stock; 2,300,000 shares of Series F		
convertible preferred stock; 0 shares of Series G preferred stock;		
1,575,229 shares of Series H convertible preferred stock;		
0 shares issued and outstanding on a pro forma and pro forma as		
adjusted basis		
	6	
Common stock, \$.001 par value; 260,000,000 shares authorized		
at September 30, 2005 and 80,000,000 shares authorized on a		
pro forma and on a pro forma as adjusted basis; 208,766 shares		
issued and outstanding at September 30, 2005, issued and		
outstanding on a pro forma basis and on a pro forma as adjusted		
basis, respectively		
		13
Additional paid-in capital	96,808	181,801
Accumulated deficit	(198,475)	(198,677)
Other comprehensive loss	(6)	(6)
	<u> </u>	<u> </u>
Total stockholders' (deficit)	(101,669)	(16,869)
	<u> </u>	<u> </u>
Total capitalization	\$ (4,438)	\$ (6,444)
	<u> </u>	<u> </u>

The table above excludes, as of September 30, 2005:

1,816,518 shares of common stock issuable upon the exercise of outstanding options and warrants to purchase our common stock, at a weighted average exercise price of \$5.13 per share;

756,620 restricted share grants entitling the share owners the right to acquire shares of common stock;

278,339 shares of common stock issuable upon the conversion of outstanding convertible promissory notes; and

700,572 shares of common stock reserved for issuance under our stock option plan.

DILUTION

Our net tangible book deficit attributable to common stockholders as of September 30, 2005, was approximately \$123.0 million, or approximately \$(9.08) per share based on 13,547,022 shares of common stock outstanding as of September 30, 2005, calculated after giving effect to the automatic conversion of all of our outstanding convertible preferred stock and mandatorily redeemable convertible preferred stock into 13,338,279 shares of common stock upon the closing of this offering. Net tangible book deficit per share represents our total tangible assets reduced by our total liabilities, mandatorily redeemable convertible preferred stock, deferred offering costs and the liquidation value of our convertible preferred stock and divided by the number of shares of common stock outstanding. Dilution per share to new investors represents the difference between the amount per share that you pay in this offering and the pro forma as adjusted net tangible book value per share immediately after this offering.

Our pro forma as adjusted net tangible book value as of September 30, 2005, would have been approximately \$ _____ million, or approximately \$ _____ per share, after giving effect to:

the automatic conversion of our outstanding convertible preferred stock and mandatorily redeemable convertible preferred stock into 13,338,279 shares of common stock upon the closing of the offering;

our entry into a revenue interest assignment arrangement with PRF on December 23, 2005, including (i) our receipt at signing of a payment in the amount of \$15.0 million, (ii) our use of approximately \$3.0 million of that payment to repay a portion of the amount we owe to GE Capital and approximately \$700,000 of that payment to pay fees and expenses related to the transaction, including expenses incurred by PRF and (iii) our recognition of a short-term liability of approximately \$11.3 million;

the sale by us of _____ shares in this offering, assuming an initial public offering price of \$ _____ per share (the midpoint of the estimated price range shown on the cover of this prospectus), after deducting underwriting discounts and commissions and estimated offering expenses; and

a 1-for-1.3 reverse stock split that we intend to effect prior to the effective date of the registration statement of which this prospectus forms a part.

This represents an immediate increase in net tangible book value of \$ _____ per share to existing stockholders and an immediate decrease in net tangible book value per share of \$ _____ to you. The following table illustrates the dilution.

Assumed initial public offering price per share	\$ _____
Net tangible book deficit per share as of September 30, 2005	\$ _____
Pro forma increase in net tangible book value per share attributable to conversion of convertible preferred stock and mandatorily redeemable convertible preferred stock	_____
Increase in net tangible book value per share attributable to existing stockholders	_____
Pro forma as adjusted net tangible book value per share after the offering	_____
Dilution per share to new investors	\$ _____

If the underwriters exercise their over-allotment option in full, the pro forma net tangible book value per share after the offering would be \$ _____ per share, the increase in net tangible book value per share to existing stockholders would be \$ _____ per share and the dilution to new investors would be \$ _____ per share.

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The following table sets forth, as of September 30, 2005, on a pro forma basis, the difference between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us, and the average price per share paid.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	%	Amount	%	
Existing stockholders	13,547,022	%	\$	%	\$
New investors(1)					
Total		100.0%	\$	100.0%	

(1) Before the underwriters' commissions and our expenses.

The table above assumes no exercise of stock options or warrants outstanding as of September 30, 2005. At September 30, 2005, there were 1,816,518 shares of common stock issuable upon exercise of outstanding stock options and warrants at a weighted average exercise price of \$5.13 per share. To the extent that outstanding options or warrants are exercised in the future, there will be further dilution to new investors. To the extent all of such outstanding options and warrants had been exercised as of September 30, 2005, net tangible book value per share after this offering would be \$ and total dilution per share to new investors would be \$.

The issuance of additional common stock will result in further dilution to new investors.

If the underwriters' over-allotment option is exercised in full, the number of shares of our common stock held by existing stockholders will be reduced to of the aggregate number of shares of our common stock outstanding after this offering, and the number of shares of common stock held by new investors will be increased to or of the aggregate number of shares of common stock outstanding after this offering.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated statement of operations data for the fiscal years ended June 30, 2001, 2002 and 2003, six month period ended December 31, 2003, and the year ended December 31, 2004 and the selected consolidated balance sheet data presented below as of June 30, 2001, 2002 and 2003, and December 31, 2003 and 2004, set forth below are derived from, and are qualified by reference to, our consolidated financial statements other than the pro forma financial information, which have been audited by KPMG LLP, our Independent Registered Public Accounting Firm, and that are included elsewhere in this prospectus for the years ended June 30, 2002 and 2003, six months ended December 31, 2003 and year ended 2004.

We changed our fiscal year end from June 30 to December 31, effective for the six months ended December 31, 2003. The selected consolidated statement of operations data presented below for the nine months ended September 30, 2004 and 2005, and selected consolidated balance sheet data presented below as of September 30, 2005, have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial information include, in the opinion of management, all adjustments, consisting of normal and recurring adjustments, that management considers necessary for a fair presentation, in all material respects, of its consolidated results for those periods. Our historical results are not necessarily indicative of the results to be expected in the future periods and the results for the nine months ended September 30, 2005, should not be considered indicative of results expected for the full year.

This data should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the related notes included elsewhere in this prospectus.

Pro forma per share amounts in the following table reflect the conversion of our outstanding convertible and mandatorily redeemable convertible preferred stock into 13,338,279 shares of common stock upon completion of this offering, assuming that shares of our preferred stock were outstanding for the entire periods presented. Pro forma balance sheet data amounts in the following table reflect the conversion of our outstanding convertible and mandatorily redeemable convertible preferred stock, as well as our entry into a revenue interest assignment arrangement with PRF on December 23, 2005, including (i) our receipt at signing of a payment in the amount of \$15.0 million, (ii) our use of approximately \$3.0 million of that payment to repay a portion of the amount we owe to GE Capital and approximately \$700,000 of that payment to pay fees and expenses related to the transaction, including expenses incurred by PRF and (iii) our recognition of a short-term liability of approximately \$11.3 million.

	Year Ended June 30,			Six Months Ended December 31,	Year Ended December 31,	Nine Months Ended September 30,	
	2001	2002	2003	2003	2004	2004	2005
	(unaudited)						
(in thousands, except per share data)							
Statement of Operations Data:							
Gross sales Zanaflex	\$	\$	\$	\$	\$	\$	\$ 3,239
Less: discounts and allowances					(4,417)	(144)	(992)
Net sales					(4,417)	(144)	2,247
Grant revenue	462	132	474	382	479	445	184
Total net revenue	462	132	474	382	(3,938)	(301)	2,431
Less: cost of sales					(885)	(363)	(2,274)
Gross profit	462	132	474	382	(4,823)	(62)	157
Operating expenses:							
Research and development	6,142	11,147	17,527	16,743	21,999	18,621	9,652
Research and development related party	2,223	4,687	2,265	3,343			
Sales and marketing					4,662	2,793	9,657
General and administrative	3,489	6,636	6,388	17,069	13,283	11,034	6,339
Total operating expenses	11,854	22,470	26,180	37,155	39,944	32,448	25,648
Operating loss	(11,392)	(22,338)	(25,706)	(36,773)	(44,767)	(32,510)	(25,491)
Other income (expense):							
Interest and amortization of debt discount expense			(78)	(38)	(385)	(297)	(824)
Interest and amortization of debt discount expense related party	(443)	(408)	(369)	(184)			
Interest income	1,824	984	393	276	409	329	347
Other income			26	7	2	2	1
Total other income (expense)	1,381	576	(28)	61	26	34	(476)
Minority interest related party	699	580					
Cumulative effect of change in accounting principle							3
Net loss	(9,313)	(21,181)	(25,734)	(36,712)	(44,741)	(32,476)	(25,964)
Beneficial conversion feature, accretion of issuance costs, preferred dividends, and fair value of warrants issued to convertible preferred	(36)	(55)	(24,320)	(11,985)	(24,746)	(18,496)	(18,636)

stockholders	Nine Months Ended September 30,													
Net loss allocable to common stockholders	\$	(9,349)	\$	(21,236)	\$	(50,054)	\$	(48,697)	\$	(69,487)	\$	(50,972)	\$	(44,600)
Net loss per share allocable to common stockholders basic & diluted	\$	(50.81)	\$	(111.90)	\$	(261.38)	\$	(252.87)	\$	(351.76)	\$	(259.22)	\$	(221.17)

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	Year Ended June 30,			Six Months Ended December 31,	Year Ended December 31,	Nine Months Ended September 30,	
	2001	2002	2003	2003	2004	2004	2005
						(unaudited)	
Pro forma net loss per share allocable to common stockholders basic & diluted (unaudited)(1)					\$ (9.63)	\$	(1.92)
Weighted average shares of common stock outstanding used in computing net loss per share allocable to common stockholders basic & diluted	184	190	191	193	198	197	202
Weighted average shares of common stock outstanding used in computing pro forma net loss per share allocable to common stockholders basic & diluted (unaudited)(1)(2)					13,536		13,547

- (1) The pro forma net loss per share and weighted average shares of common stock used in computing pro forma net loss per share allocable to common stockholders for the year ended December 31, 2004 and the nine months ended September 30, 2005 are calculated as if all our convertible preferred stock and mandatorily redeemable convertible preferred stock were converted into common stock as of the beginning of the year ended December 31, 2004 or from their respective dates of issuance, if issued after the beginning of the year ended December 31, 2004. The pro forma net loss per share allocable to common stockholders for the year ended December 31, 2004 has been computed assuming the offering was completed at the beginning of the fiscal year presented and has been adjusted to give effect to the following: (a) recognition of the unamortized portion of a beneficial conversion charge of \$67.9 million; (b) recognition of the unamortized portion of issuance costs relating to Series E, Series I, Series J and Series K preferred stock of \$379,000; and (c) reversal of accrued preferred dividends on Series J and Series K preferred stock of \$7.4 million (see Note 8 to the consolidated financial statements). The pro forma net loss per share allocable to common stockholders for the nine month period ended September 30, 2005 reflects the reversal of the accrued preferred dividend of \$4.0 million, amortized beneficial conversion charge of \$14.5 million and amortized issuance cost of \$81,000 assuming that the automatic conversion occurred as of the beginning of the fiscal year ended December 31, 2004.
- (2) The weighted average shares of our common stock outstanding used in computing the pro forma net loss per share allocable to common stockholders is calculated based on (a) Series A through Series J equivalent shares of common stock from the beginning of the fiscal year; and (b) Series K equivalent shares of common stock issuable from the date of issuance of the Series K preferred stock.

	As of June 30,			As of December 31,		As of September 30,	Pro Forma As of September 30,
	2001	2002	2003	2003	2004	2005	2005
	(in thousands)					(unaudited)	

Consolidated Balance Sheet

Data:														
Cash and cash equivalents	\$	48,083	\$	27,012	\$	48,319	\$	8,965	\$	11,729	\$	3,581	\$	14,879
Restricted cash		243		250		253		254		257		261		261
Short-term investments				2,836		12,250		32,250		9,397		5,160		5,160
Working capital		46,115		27,097		58,975		35,375		9,067		(12,203)		(10,506)
Total assets		50,349		33,597		64,807		45,960		30,982		25,543		37,342

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	As of June 30,		As of December 31,		As of September 30,		Pro Forma As of September 30,
Deferred grant revenue		95		48			
Deferred product revenue Zanaflex Capsules						4,960	4,960
Deferred product revenue Zanaflex tablets					6,668	10,686	10,686
Current portion of notes payable		310		324	302	2,347	1,150
Non-current portion of notes payable		612		447	145	3,534	1,731
Revenue interest liability							11,299
Long-term convertible notes payable related party	7,131	7,538	7,907	8,091	8,422	8,695	8,695
Mandatorily redeemable preferred stock	59,604	59,659	18,187	30,171	66,364	85,000	
Total stockholders' (deficit)	(19,041)	(36,910)	35,328	(130)	(60,571)	(101,669)	(16,869)

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

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes included in this prospectus. This discussion and analysis contains forward-looking statements that are subject to risks, uncertainties and other factors, including, but not limited to, those discussed under "Risk Factors" and elsewhere in this prospectus, that could cause our actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. See "Forward-Looking Statements."

Background

Since we commenced operations in 1995, we have devoted substantially all of our resources to the identification, development and commercialization of novel therapies that improve neurological function in people with MS, SCI and other disorders of the CNS. Our marketed drug, Zanaflex Capsules, is FDA-approved for the management of spasticity. Our lead product candidate, Fampridine-SR, is in a Phase 3 clinical trial for the improvement of walking ability in people with MS. Our preclinical programs also target MS and SCI, as well as other CNS disorders, including stroke and traumatic brain injury.

From 1995 until mid-2004, we were engaged almost exclusively in the in-licensing of compounds and the preclinical and clinical development of these compounds. We licensed the rights to Fampridine-SR from Elan for the treatment of SCI in 1997. In 1998, we formed a joint venture, MS Research & Development Corporation, or MSRD, with Elan International Services, Ltd., or EIS, a subsidiary of Elan, to develop Fampridine-SR for the treatment of MS under an exclusive worldwide license from Elan.

In September 2003, we entered into a termination and assignment agreement with Elan, EIS and MSRD, pursuant to which MSRD assigned to us its assets, including the license from Elan for Fampridine-SR for MS. We paid MSRD approximately \$11.5 million for all of the assets and assumed all of the liabilities of MSRD, and MSRD distributed to us approximately \$9.5 million as our pro rata portion of the purchase price. From the time of establishment of MSRD until the sale of MSRD's assets to us, Elan was considered to be a related party under generally accepted accounting principles. In conjunction with the termination and assignment, we entered into an amended license agreement with Elan that granted us exclusive worldwide rights to Fampridine-SR in return for the payment of royalties and milestones. In addition, we entered into a supply agreement under which Elan provides Fampridine-SR based upon an agreed upon price schedule.

In September 2003, we entered into a collaboration agreement with Teva Pharmaceutical Industries Ltd., or Teva, to jointly develop and promote in the United States products containing valroceamide, pursuant to which we made an initial payment to Teva of \$2.1 million. We and Teva amicably terminated this collaboration agreement in June 2005 and in connection with the termination we paid Teva approximately \$3.1 million. We and Teva have no further obligations to each other under this collaboration agreement.

We have expended a significant portion of our funds on a number of clinical trials for Fampridine-SR, our most advanced product candidate, including two Phase 3 clinical trials of Fampridine-SR in SCI and a Phase 2 clinical trial in MS, the results of which were announced in March 2004. An earlier Phase 2 clinical trial in MS was completed in 2001. In mid-2004, we decided to put our clinical trials of Fampridine-SR in SCI on hold, and refocused our efforts on our ongoing Fampridine-SR in MS program, leading to our current Phase 3 clinical trial of Fampridine-SR for improvement of walking ability in people with MS. We may resume our clinical development of Fampridine-SR for SCI following completion of our MS clinical program, or sooner.

In July 2004, we acquired all of Elan's research, development, distribution, sales and marketing rights to Zanaflex Capsules and Zanaflex tablets in the United States. These products are FDA-approved for the management of spasticity. We made an upfront payment to Elan of \$2.0 million and are obligated to pay royalties on sales and to make milestone payments upon achievement of specified sales levels. To date, we have achieved two milestones, the first triggering a payment of \$1.5 million, 50% of which was paid in the first quarter of 2005 and 50% of which is due in the first quarter of 2006. The second milestone of \$3.0 million is due in the first quarter of 2006. As part of our Zanaflex acquisition, we entered into a long-term supply agreement with Elan under which Elan provides us with Zanaflex Capsules. Elan also assigned us its rights under an agreement with Novartis for the supply of tizanidine and Zanaflex tablets.

Our marketing efforts are focused on Zanaflex Capsules, which we launched in April 2005. Zanaflex tablets lost compound patent protection in 2002 and compete with 11 generic tizanidine products. Although we currently distribute Zanaflex tablets, we do not, and do not intend to, actively promote Zanaflex tablets. As a result, prescriptions for Zanaflex tablets have declined and we expect that they will continue to decline. Our goal is to convert as many sales of Zanaflex tablets and generic tizanidine tablets to sales of Zanaflex Capsules as possible. We believe that sales of Zanaflex Capsules will constitute a significant portion of our total revenue for the foreseeable future.

In late 2004, we began establishing our own specialty sales force in the United States, which consisted of 14 sales professionals as of September 30, 2005. This sales force targets neurologists and other prescribers who specialize in treating people with conditions that involve spasticity. Members of this sales force also call on managed care organizations, pharmacists and distribution customers. We plan to expand our specialty sales force to approximately 30 sales professionals in the first quarter of 2006. We have also entered into an agreement with Cardinal Health, under which, since August 2005, they have provided approximately 160 sales representatives to market Zanaflex Capsules to primary care physicians in the United States. We have retained Access Worldwide Communications to provide a small, dedicated sales force of pharmaceutical telesales professionals to contact primary care, specialty physicians and pharmacists. We expect to expand this sales and marketing infrastructure in the future, as appropriate.

In February 2004, we changed our fiscal year end from June 30 to December 31, effective for the six months ended December 31, 2003.

In December 2005, we entered into a Revenue Interests Assignment Agreement with PRF pursuant to which we assigned PRF the right to receive a portion of our net revenues (as defined in the agreement) from Zanaflex Capsules, Zanaflex tablets and any future Zanaflex products. The agreement covers all Zanaflex net revenues generated from October 1, 2005 through and including December 31, 2015, unless the agreement is terminated earlier. In consideration for the assignment, PRF paid us \$15.0 million at signing. We used approximately \$3.0 million of that payment to repay a portion of the amount we owe to GE Capital, \$200,000 of that payment for expenses associated with such repayment and \$500,000 of that payment to reimburse PRF for expenses it incurred in the transaction. Under our agreement with PRF, we are required to use the remainder of the amount we received at signing and any other amounts we receive under the agreement to support commercialization, sales, marketing, clinical and regulatory activities and other financial obligations related specifically and solely to our Zanaflex operations. At our election, PRF is also required to pay us (i) an additional \$5.0 million if our Zanaflex net revenues in 2005 equal or exceed \$11.0 million and our Zanaflex net revenues in the first six months of 2006 equal or exceed \$16.0 million, and (ii) an additional \$5.0 million if our Zanaflex net revenues in 2006 equal or exceed \$33.5 million. If we meet these milestones and decide to borrow these additional funds, we would be required to pay PRF \$5.0 million on December 1, 2009 in the case of the first additional payment and \$5.0 million on December 1, 2010 in the case of the second additional payment. For more information regarding our agreement with PRF, see "Liquidity and Capital Resources Financing Arrangements."

Product Revenue and Returns

Ongoing Zanaflex Capsule and Tablet Sales

Product revenue consists of sales of Zanaflex Capsules and Zanaflex tablets. Under SFAS 48, *Revenue Recognition When the Right of Return Exists*, we are not permitted to recognize revenue until we can reasonably estimate the likely return rate for our products. Since we have only limited sales history with Zanaflex Capsules and due to generic competition and customer conversion from Zanaflex tablets to Zanaflex Capsules, we cannot reasonably determine a return rate. As a result, we account for sales of these products using a deferred revenue recognition model. At a future point in time, which could be in a number of years, when we are able to reasonably estimate product returns we will begin to recognize revenue based on shipments of product to our wholesale drug distributors.

Under our deferred revenue model, we do not recognize revenue upon shipment of product to our wholesale drug distributors. Instead, we record deferred revenue at gross invoice sales price, and classify the cost basis of the inventory held by the wholesaler as a component of inventory. We recognize revenue when prescriptions are filled to end-users because once prescriptions are filled the product cannot be returned. We use monthly prescription data that we purchase from NDC Health, a leading provider of healthcare data, to determine the amount of revenue to be recognized. When we receive the prescription data, we use the number of units of product prescribed to record gross sales. We then reduce deferred revenue and record cost of goods sold. We began receiving end-user prescription data in March 2005 which enabled us to begin recognizing revenue from Zanaflex tablet sales. We began marketing Zanaflex Capsules in April 2005 and began receiving prescription data and recognizing revenue in the same month. Through September 30, 2005, we have recognized \$2.1 million in revenue from Zanaflex tablets and \$1.1 million from Zanaflex Capsules.

Under our Revenue Interests Assignment Agreement with PRF, PRF is entitled to a portion of our net revenues from Zanaflex Capsules, Zanaflex tablets and any future Zanaflex products. The agreement covers all Zanaflex net revenues generated from October 1, 2005 through and including December 31, 2015, unless the agreement terminates earlier. Under the agreement, PRF is entitled to the following portion of Zanaflex net revenues:

with respect to Zanaflex net revenues up to and including \$30.0 million for each fiscal year during the term of the agreement, 15% of such net revenues;

with respect to Zanaflex net revenues in excess of \$30.0 million but less than and including \$60.0 million for each fiscal year during the term of the agreement, 6% of such net revenues; and

with respect to Zanaflex net revenues in excess of \$60.0 million for each fiscal year during the term of the agreement, 1% of such net revenues.

Notwithstanding the foregoing, once PRF has received and retained payments under the agreement that are at least twice the aggregate amount PRF has paid us under the agreement, PRF will only be entitled to 1% of Zanaflex net revenues.

We accept returns of products for six months prior to and 12 months after their expiration date. Returns of products sold by us are charged directly against deferred revenue, reducing the amount of deferred revenue that we may recognize.

Sale of Zanaflex Tablet Inventory Acquired From Elan

When we acquired Zanaflex from Elan, we also acquired Elan's inventory of Zanaflex tablets. This inventory included partial lots with expiration dating of less than 12 months and full lots with expiration dating greater than 12 months. We have deferred recognition of any revenue from sales of the partial lot inventory until the return period for the product expires in June 2006, and will recognize revenue

then only to the extent that deferred revenues exceed returns. We cannot use prescription data to recognize revenue associated with the partial lot inventory acquired from Elan because we cannot determine whether the prescription was filled with product that Elan sold prior to our acquisition of Zanaflex or with product we sold.

All Zanaflex tablet partial lot inventory that we acquired from Elan has either been sold or is no longer being sold by us. As a result, after the return period expires in June 2006, there will no longer be deferred revenue associated with the Zanaflex tablet partial lot inventory acquired from Elan.

In July 2005 we began to recognize revenue from the full lots based on prescriptions filled for Zanaflex tablets. All of the Zanaflex tablet inventory sold by Elan prior to our acquisition reached expiration in June 2005, therefore any prescriptions filled for Zanaflex tablets subsequent to June 2005 must be from the full inventory lots acquired by and sold by us.

We are uncertain about the amount of returns that we may receive on these products, for a number of reasons including our limited historical returns experience. Returns of Zanaflex tablet inventory acquired from Elan and sold by us are charged against deferred revenue, reducing the amount of deferred revenue that we may recognize.

Returns of Zanaflex Tablets sold by Elan

As part of the acquisition of Zanaflex, we agreed to accept returns of Zanaflex tablets that were returned subsequent to January 17, 2005, including returns of product that was originally sold by Elan. Product returns prior to January 17, 2005, were the responsibility of Elan. We have recorded a charge of \$4.1 million in the year ended December 31, 2004, for the estimated returns of Zanaflex tablets sold by Elan. To the extent that returns exceed the estimated charge, we will be required to record further charges. The return period for Zanaflex tablets sold by Elan ends in June 2006, after which time we do not anticipate any further charges resulting from Zanaflex tablets sold by Elan.

Discounts and Allowances

Discounts and allowances consist of estimated reserves for cash discounts, rebates and chargebacks. At the time product is shipped to wholesalers an allowance is recorded for these discounts and allowances. Allowances are established on a product-by-product basis. These allowances are established by management as its best estimate based on each product's historical experience adjusted to reflect known changes in the factors that impact such reserves. Reserves for chargebacks, rebates and discounts are established based on the contractual terms with customers, analysis of historical levels of discounts, chargebacks and rebates, communications with customers and the levels of inventory remaining in the distribution channel as well as expectations about the market for each product and anticipated introduction of competitive products.

Grant Revenue

Grant revenue is recognized when the related research expenses are incurred and our performance obligations under the terms of the respective contract are satisfied. To the extent expended, grant revenue related to purchase of equipment is deferred and amortized over the shorter of its useful life or the life of the related contract.

Cost of Sales

Cost of sales consists of cost of inventory, royalty expense and milestone amortization of intangible assets associated with the Zanaflex acquisition, packaging costs, freight and required inventory stability testing costs. Our inventory costs, royalty obligations and milestone obligations are set forth in the agreements entered into in connection with our Zanaflex acquisition.

Research and Development Expenses

Research and development expenses consist primarily of salaries and related expenses for personnel, fees paid to professional service providers in conjunction with independently monitoring our clinical trials and acquiring and evaluating data from our clinical trials, costs of contract manufacturing services, costs of materials used in clinical trials and research and development, depreciation of capital resources used to develop our products, costs of facilities and the legal costs of pursuing patent protection of our intellectual property. We expense research and development costs as incurred. We expect our research and development expenses to increase as we continue to develop our product candidates and preclinical programs.

The following table summarizes our research and development expenses for the fiscal years ended June 30, 2001, 2002, 2003, the six months ended December 31, 2003, the year ended December 31, 2004 and the nine months ended September 30, 2005. Included in this table are our external research and development costs, consisting largely of clinical trial and research services provided by outside laboratories and vendors recognized in connection with each product candidate currently in clinical development and all preclinical programs as a group. Many of our internal research and development costs, including personnel costs, related benefits and stock-based compensation, are not attributable to any individual project because we use these resources across several development projects. Compensation expense for option grants is classified between clinical development and preclinical research and development based on employee job function.

	Year Ended June 30,			Six Months Ended December 31, 2003	Year Ended December 31, 2004	Nine Months Ended September 30,		
	2001	2002	2003			2004	2005	
							(unaudited)	
	(in thousands)							
Clinical development:								
Contract expense SCI	\$ 1,557	\$ 3,359	\$ 5,777	\$ 4,266	\$ 5,853	\$ 5,630	\$ 30	
Contract expense MS	649	908	1,613	2,116	2,850	2,205	2,296	
Other contract expense			1,015	1,388	4,945	4,292	3,729	
Operating expense	695	1,518	2,356	1,789	2,652	2,108	951	
Licensing expense Teva				2,000				
Total clinical development	2,901	5,785	10,761	11,559	16,300	14,235	7,006	
Preclinical research & development:								
Research contracts	586	617	271	412	628	469	68	
Contract expense		213	1,441	216	113	47	62	
Operating expense	2,655	4,531	5,054	4,556	4,958	3,870	2,516	
Total preclinical research & development	3,241	5,361	6,766	5,184	5,699	4,386	2,646	
Total research & development	6,142	11,146	17,527	16,743	21,999	18,621	9,652	
Research & development related party expense	2,223	4,687	2,265	3,343				
Total	\$ 8,365	\$ 15,833	\$ 19,792	\$ 20,086	\$ 21,999	\$ 18,621	\$ 9,652	

Research and Development Related Party

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In cooperation with Elan, we have conducted a series of clinical trials during the past eight years evaluating Fampridine-SR. Elan was considered to be a related party during the period from April,

1998 when MSRD, our jointly-owned venture with Elan to develop Fampridine-SR in MS, was formed until September 2003, when Elan's interest in MSRD was sold to us (see Note 11 to our consolidated financial statements included in this prospectus). Related party research and development or sales and marketing expenses have been included as a separate line item in our financial statements for this period and in the table above. These expenses consisted of the contracted development and supply of our lead product candidate, Fampridine-SR, license fees and expenses associated with our acquisition of Elan's interest in MSRD.

Sales and Marketing Expenses

Sales and marketing expenses includes the costs of salaries for our sales and marketing personnel and the cost of our advertising, promotion and education programs. Sales and marketing expenses include the cost of our contract sales force provided by Cardinal Health and our contract pharmaceutical telesales services provided by Access Worldwide.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and other related costs for personnel serving executive, finance, business development, legal, information technology and human resource functions. Other costs include facility costs not otherwise included in research and development or sales and marketing expense and professional fees for legal and accounting services. We expect that our general and administrative expenses will increase as we add personnel and become subject to the reporting obligations applicable to public companies.

Stock-Based Compensation

We have accounted for options and restricted stock granted to employees and directors in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, and related interpretations. As such, compensation expense is recorded on stock option and restricted stock grants based on the fair value of the restricted stock and options granted, which is estimated on the date of grant using an option-pricing model and it is recognized on a straight-line basis over the vesting period. Compensation expense for options and restricted stock granted to employees amounted to \$643,000, \$1.3 million, \$1.6 million, \$13.2 million, \$9.0 million, and \$3.5 million for the years ended June 30, 2001, 2002 and 2003, the six months ended December 31, 2003, the year ended December 31, 2004 and the nine months ended September 30, 2005. Compensation expense for options and restricted stock granted to employees are classified between research and development and general and administrative expense based on employee job function.

We have accounted for stock options granted to non-employees on a fair-value basis in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, Emerging Issues Task Force ("EITF") Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, and FASB Interpretations No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans an Interpretation of APB Opinion No. 15 and 25*. As a result, the non-cash charge to operations for non-employee options with vesting or other performance criteria is affected each reporting period by changes in the fair value of our common stock. Compensation expense for options granted to non-employees amounted to \$94,000, \$75,000, (\$7,000), \$8,000, \$15,000 and \$47,000 for the years ended June 30, 2001, 2002 and 2003, the six months ended December 31, 2003, the year ended December 31, 2004 and the nine months ended September 30, 2005, respectively. The amount of compensation expense to be recorded in the future for options granted to non-employees is subject to change each reporting period based upon changes in the fair value of our common stock, estimated volatility and risk free interest rate until the non-employee completes performance under the option agreement.

We may record additional deferred stock-based compensation if we grant additional options or change the terms of the options granted to our employees.

Beneficial Conversion Feature

In May 2003, we completed a private placement of 112,790,233 shares of Series J convertible preferred stock for an aggregate purchase price of approximately \$55.3 million. As a result of this financing, our Series A through Series I preferred stockholders' original conversion prices were reduced due to anti-dilution adjustments, which resulted in a beneficial conversion of \$80.7 million in accordance with EITF No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios* and EITF No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*. The beneficial conversion of \$20.9 million was recorded as an immediate charge to additional paid-in capital, relating to our Series A, Series B, Series C, Series F and Series H convertible preferred stock, which are not mandatorily redeemable and may be converted to common stock at any time at the option of the holders. The remaining beneficial conversion of \$59.9 million, relating to our Series E and Series I convertible preferred stock, which are mandatorily redeemable at any time on or after June 30, 2008, is being accreted ratably over the mandatory redemption period. Such accretion amounted to \$1.7 million, \$5.8 million, \$11.6 million and \$8.7 million for the year ended June 30, 2003, the six months ended December 31, 2003, the year ended December 31, 2004, and the nine months ended September 30, 2005, respectively, and is charged to additional paid-in capital.

The issuance of Series J mandatorily redeemable convertible preferred stock resulted in a beneficial conversion amounting to \$40.0 million in accordance with EITF No. 98-5. The beneficial conversion is calculated based on the estimated fair value of our common stock price per share at the date of issuance of Series J preferred stock of approximately \$10.14 per share of common stock, which was calculated based on the estimated projected midpoint of the range of our initial public offering price per common share, which was planned in the fourth calendar quarter of 2003, and the stock price appreciation in comparable public companies from May 2003 to August 2003. The beneficial conversion feature is being accreted ratably over the mandatory redemption period, with a charge to additional paid-in capital of \$1.1 million, \$3.9 million, \$7.8 million and \$5.8 million for the year ended June 30, 2003, the six months ended December 31, 2003, the year ended December 31, 2004, and the nine months ended September 30, 2005, respectively.

The unamortized portion of the beneficial conversion at September 30, 2005 was \$53.3 million. Upon the closing of this offering, we will recognize a one time non-cash charge to additional paid in capital, reflecting the unamortized portion of the beneficial conversion feature as a result of the automatic conversion of all outstanding convertible preferred stock and mandatorily redeemable convertible preferred stock to common stock upon completion of this offering.

Other Income (Expense)

Interest income consists of interest earned on our cash, cash equivalents and short-term investments. Interest expense consists of interest expense on our GE Capital notes. Interest expense-related party consists of amortization of debt discount and accrued interest on our \$7.5 million aggregate principal amount of EIS convertible notes, outstanding as of September 30, 2005. Other income consists primarily of unrealized gains from our investment securities.

Results of Operations

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004

Product Sales

We recognized revenue from the sale of Zanaflex Capsules and Zanaflex tablets of \$3.2 million for the nine months ended September 30, 2005, as compared to \$0 for the nine months ended September 30, 2004. We recognize product sales using a deferred revenue recognition model meaning that product sales are recorded as deferred revenue when shipped to the wholesaler and only recognized as revenue when end-user prescriptions of the product are filled. Product sales in the nine months ended September 30, 2005, consist of Zanaflex tablet sales beginning in March 2005, which is

when we began receiving prescription data for tablets containing a code clearly identifying these prescriptions as having been filled with product we sold, and Zanaflex Capsules prescription data beginning after our launch of the product in April 2005.

Deferred revenue from Zanaflex Capsules was \$5.0 million as of September 30, 2005, as compared to \$0 as of September 30, 2004. The increase in deferred revenue of Zanaflex Capsules was a result of our launch of the product in April 2005. We expect deferred revenue from Zanaflex Capsules to increase in the future as our sales and marketing efforts ramp up, and prescription data continues to lag wholesaler orders made in anticipation of demand.

Deferred revenue from Zanaflex tablets was \$10.7 million as of September 30, 2005, an increase of \$4.0 million since December 31, 2004, as compared to \$2.8 million as of September 30, 2004. The increase in deferred revenue of Zanaflex tablets was a result of continued sales of the product and the fact that we are not recognizing any of the deferred revenue from Zanaflex tablet inventory acquired from Elan that had an expiration date of less than twelve months at the date of acquisition until after the return period expires in June 2006. With respect to the \$10.7 million of deferred revenue at September 30, 2005, approximately \$2.5 million relates to product that we acquired from Elan that had an expiration date of less than 12 months at the time we sold it during 2004. We believe there is a high likelihood that this product will be returned, which would result in our inability to recognize revenue related to these sales. We expect deferred revenue from Zanaflex tablets to decline over time as we attempt to convert Zanaflex tablet sales to Zanaflex Capsules sales.

Discounts and Allowances

We recorded discounts and allowances of \$992,000 for the nine months ended September 30, 2005 as compared to \$144,000 for the nine months ended September 30, 2004. Discounts and allowances are recorded when Zanaflex Capsules and Zanaflex tablets are shipped to wholesalers. We began shipping Zanaflex tablets after our acquisition from Elan in July 2004 and Zanaflex Capsules in April 2005. Discounts and allowances for the nine months ended September 30, 2005 consisted of \$683,000 in cash discounts and \$308,000 in reserves for chargebacks and rebates. Discounts and allowances for the nine months ended September 30, 2004, consisted of \$55,000 in cash discounts and \$89,000 for chargebacks and rebates. As part of our April 2005 launch of Zanaflex Capsules, in April, May and September 2005 we extended a 6% promotional cash discount over and above the standard 2% discount provided to drug wholesalers and a 4% rebate on products resold by the wholesalers to pharmacies, hospitals and other third parties. We expect cash discounts to decrease in future periods as a percentage of sales.

Grant Revenue

Grant revenue for the nine months ended September 30, 2005 was \$184,000 compared to \$445,000 for the nine months ended September 30, 2004. Grant revenue is recognized when the related research expenses are incurred and our performance obligations under the terms of the respective contract are satisfied.

Cost of Sales

We recorded cost of sales of \$2.3 million for the nine months ended September 30, 2005 as compared to \$363,000 for the nine months ended September 30, 2004. Cost of sales for the nine months ended September 30, 2005, consisted of \$1.2 million in royalty fees, \$249,000 in milestone amortization of intangible assets, \$561,000 in inventory costs and \$275,000 in costs related to packaging, freight, and stability testing. Cost of sales for the nine months ended September 30, 2004, consisted of \$261,000 in royalty fees, \$37,000 in milestone amortization of intangible assets and \$65,000 in inventory costs. We began incurring cost of sales upon the acquisition of Zanaflex in July 2004.

Research and Development

Research and development expenses for the nine months ended September 30, 2005, were \$9.7 million as compared to \$18.6 million for the nine months ended September 30, 2004, a decrease of approximately \$8.9 million, or 47.8%. The decrease in research and development expenses was primarily attributable to completion of two Phase 3 clinical trials of Fampridine-SR in SCI, and one Phase 2 clinical trial of Fampridine-SR in MS, during the first quarter of 2004. The SCI clinical development program expense decreased from \$5.6 million for the nine months ended September 30, 2004 to \$30,000 for the nine months ended September 30, 2005, due to our decision to put the program on hold. The MS clinical development program expense increased from \$2.2 million for the nine months ended September 30, 2004 to \$2.3 million for the nine months ended September 30, 2005, an increase of 4.5%. We expect that expenses associated with our MS clinical development program will increase as we continue our Phase 3 clinical trial.

Other contract expenses decreased to \$3.8 million in the nine months ended September 30, 2005, from \$4.3 million in the nine months ended September 30, 2004, a decrease of 11.6%. This decrease is primarily due to a \$3.1 million decrease in expenses for the manufacture of clinical supplies from the period ended September 30, 2004, offset by a \$2.2 million increase in expenses related to the valroceimide collaboration, primarily due to expenses of \$3.1 million related to the termination of that collaboration in the nine months ended September 30, 2005.

Operating expenses for clinical development and preclinical research and development decreased to \$3.3 million in the nine months ended September 30, 2005, from \$6.0 million in the nine months ended September 30, 2004, a decrease of \$2.5 million, or 41.7%. This decrease was a result of a \$1.1 million decrease in preclinical salaries and benefits due to a staff reduction in early 2005. These expenses also include non-cash stock-based compensation expense of \$465,000 for the nine months ended September 30, 2005, and \$1.4 million for the nine months ended September 30, 2004.

Sales and Marketing

Sales and marketing expenses for the nine months ended September 30, 2005, were \$9.7 million compared to \$2.8 million for the nine months ended September 30, 2004, an increase of approximately \$6.9 million or 246.4%. This increase was primarily attributable to \$3.3 million for marketing and distribution and sales administration expense related to the launch of Zanaflex Capsules and the distribution of Zanaflex tablets and \$3.0 million in salaries and benefits related to our Zanaflex Capsules specialty sales force.

General and Administrative

General and administrative expenses for the nine months ended September 30, 2005, were \$6.3 million compared to \$11.0 million for the nine months ended September 30, 2004, a decrease of approximately \$4.7 million, or 42.7%. Total general and administrative expenses include non-cash stock based compensation expense of \$2.0 million for the nine months ended September 30, 2005, as compared to \$5.3 million for the nine months ended September 30, 2004, primarily attributable to the repricing in the first quarter of 2004 of options granted prior to 2004. In addition, the nine months ended September 30, 2004, included approximately \$1.2 million in outside NDA preparation services related to our Phase 3 trials of Fampridine-SR in SCI.

Other Income (Expense)

Other income (expense) decreased to a loss of \$476,000 for the nine months ended September 30, 2005, from a gain of \$34,000 in the nine months ended September 30, 2004, a decrease of \$510,000. Interest expense increased by \$527,000 primarily related to a \$6.0 million secured term loan with GE Capital entered into in January 2005. The increase in interest expense was offset by an increase in interest income of \$18,000 during the nine months ended September 30, 2005.

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Beneficial Conversion Feature, Accretion of Issuance Costs, Preferred Dividends and Fair Value of Warrants Issued to Convertible Preferred Stockholders

Charges related to preferred stock remained relatively flat at \$18.6 million for the nine months ended September 30, 2005, and \$18.5 million for the nine months ended September 30, 2004. These charges primarily comprised accretion of issuance costs on Series E, Series I and Series J mandatorily redeemable convertible preferred stock, accrual of preferred dividend of on Series J and Series K mandatorily redeemable convertible preferred stock, accretion of beneficial conversion feature on Series A through Series I preferred stock for reset in conversion price and accretion of beneficial conversion feature on Series J preferred stock (see Notes 3, 8 and 11 to our consolidated financial statements included in this prospectus).

Year Ended December 31, 2004 Compared to Twelve Months Ended December 31, 2003⁽¹⁾

	Twelve Months Ended December 31, 2003	Year Ended December 31, 2004
	(unaudited)	
	(in thousands)	
Gross sales Zanaflex	\$	\$
Less: discounts and allowances		(4,417)
Net sales		(4,417)
Grant revenue	764	479
Total net revenue	764	(3,938)
Less: cost of sales		(885)
Gross profit	764	(4,823)
Operating expenses:		
Research and development	26,228	21,999
Research and development related party	4,016	
Sales and marketing		4,662
General and administrative	21,220	13,283
Total operating expenses	51,464	39,944
Operating loss	(50,700)	(44,767)
Other income (expense):		
Interest and amortization of debt discount expense	(82)	(385)
Interest and amortization of debt discount expense related party	(445)	
Interest income	417	409
Other income	30	2
Total other income (expense)	(80)	26
Net loss	(50,780)	(44,741)
Beneficial conversion feature, accretion of issuance costs, preferred dividends, and fair value of warrants issued to convertible preferred stockholders	(36,277)	(24,746)
Net loss allocable to common stockholders	\$ (87,057)	\$ (69,487)

(1)

We changed our fiscal year end from June 30 to December 31, effective for the six months ended December 31, 2003. Accordingly, these amounts are derived from our books and records and represent the accumulation of the period January 1, 2003 to June 30, 2003 and July 1, 2003 to December 31, 2003.

Product Sales

We did not record product sales from the sale of either Zanaflex Capsules or Zanaflex tablets in the year ended December 31, 2004, or the twelve months ended December 31, 2003.

We did not record deferred revenue from Zanaflex Capsules in either period, as the product was not launched until April 2005. Deferred revenue from Zanaflex tablets was \$6.7 million as of December 31, 2004, as compared to \$0 as of December 31, 2003. With respect to the \$6.7 million of deferred revenue at December 31, 2004, approximately \$3.6 million related to product that we acquired from Elan that had an expiration date of less than 12 months at the time we sold it during 2004. We believe there is a high likelihood that this product will be returned, which would result in our inability to recognize revenue related to these sales.

Discounts and Allowances

We recorded discounts and allowances of \$4.4 million for the year ended December 31, 2004, as compared to \$0 for the twelve months ended December 31, 2003. Discounts and allowances for the year ended December 31, 2004, consisted of \$128,000 in cash discounts and \$207,000 for chargebacks and rebates. Additionally, in the year ended December 31, 2004, we took a \$4.1 million charge to establish a reserve for expected returns of Zanaflex tablets sold by Elan prior to our acquisition of Zanaflex. As part of the acquisition of Zanaflex, we agreed to accept any returns of Zanaflex tablets that were returned subsequent to January 17, 2005, including returns of product that was originally sold by Elan.

Grant Revenue

Grant revenue for the year ended December 31, 2004, was \$479,000 compared to \$764,000 for the twelve months ended December 31, 2003. Grant revenue is recognized when the related research expenses are incurred and our performance obligations under the terms of the respective contract are satisfied.

Cost of Sales

We recorded cost of sales of \$885,000 for the year ended December 31, 2004 as compared with \$0 for the twelve months ended December 31, 2003. Cost of sales for the year ended December 31, 2004, consisted of \$519,000 in royalty fees, \$114,000 in milestone amortization of intangible assets and \$252,000 in inventory costs related to the sale of Zanaflex tablets. For the twelve months ended December 31, 2003, we had no product sales and, as a result, no cost of sales.

Research and Development

Research and development expense for the year ended December 31, 2004, was \$22.0 million, as compared to \$26.2 million for the twelve months ended December 31, 2003, a decrease of approximately \$4.2 million, or 16.0%. Contributing to this decrease was completion of two Phase 3 clinical trials of Fampridine-SR in SCI, and one Phase 2 clinical trial of Fampridine-SR in MS, during the first quarter of 2004. The SCI clinical development program expense decreased to \$5.9 million for the year ended December 31, 2004, as compared to \$7.2 million for the twelve months ended December 31, 2003, a decrease of \$1.3 million, or 18.1%. The MS clinical development program expense decreased to \$2.9 million for the year ended December 31, 2004, as compared to \$3.3 million for the twelve months ended December 31, 2003, a decrease of \$400,000, or 12.1%. We expect that expenses associated with our MS clinical development program will increase as we continue our Phase 3 clinical trial. Our licensing expense decreased to \$0 for the year ended December 31, 2004, as compared to \$2.0 million for the twelve months ended December 31, 2003. This expense was attributable to an initial payment to Teva for our collaboration agreement for valroceamide.

Other contract expenses increased to \$5.0 million for the year ended December 31, 2004, as compared to \$1.9 million for the twelve months ended December 31, 2003, an increase of \$3.1 million, or 163.2%. This increase is primarily the result of the inclusion of costs related to the drug development and supply of Fampridine-SR in other contract expenses for the year ended December 31, 2004. Prior to the termination of the joint venture with Elan in September 2003, this cost was included in Research and development related party expense. Also contributing to this increase was a cost of \$914,000 relating to a terminated development program.

Operating expense for clinical development and preclinical research and development decreased to \$7.6 million for the year ended December 31, 2004, as compared to \$11.2 million for the twelve months ended December 31, 2003, a decrease of \$3.6 million, or 32.1%. This decrease was partly attributable to a decline in non-cash stock-based compensation expense to \$1.8 million for the year ended December 31, 2004, as compared to \$3.0 million for the twelve months ended December 31, 2003. The decrease was also attributable to other expenses in the twelve months ended December 31, 2003, which included \$508,000 of NDA expense and a \$452,000 bonus accrual. In addition, research and development lab expense for the year ended December 31, 2004 was \$277,000, as compared to \$557,000 for the twelve months ended December 31, 2003, a decrease of \$280,000.

Research and development related party expenses for the year ended December 31, 2004, were \$0, as compared to \$4.0 million for the twelve months ended December 31, 2003. This decrease was attributable to the termination of our MSRDR joint venture with Elan in September 2003, after which all MSRDR-related research and development expenses were included in clinical development expenses. Research and development related party expenses for the twelve months ended December 31, 2003 also included \$2.0 million related to termination of the joint venture and \$2.0 million in drug development and supply cost.

Sales and Marketing

Sales and marketing expense was \$4.7 million for the year ended December 31, 2004, as compared to \$0 for the twelve months ended December 31, 2003. This increase was attributable to the beginning of our commercial efforts after our acquisition of the Zanaflex products in July 2004 and included \$2.1 million in expense for marketing, distribution, and sales administration, \$1.2 million in salaries and benefits, approximately \$765,000 in non-cash stock-based compensation expense, and approximately \$600,000 in additional sales and marketing overhead expenses.

General and Administrative

General and administrative expense decreased to \$13.3 million for the year ended December 31, 2004, from \$21.2 million for the twelve months ended December 31, 2003, a decrease of approximately \$7.9 million, or 37.3%. This decrease was partly attributable to a decrease in non-cash stock based compensation expense to \$6.5 million for the year ended December 31, 2004, as compared to \$11.8 million for the twelve months ended December 31, 2003, a decrease of approximately \$5.3 million, or 44.9%. In addition, for the twelve months ended December 31, 2003, we had an additional \$1.4 million in financing-related expenses as compared to the year ended December 31, 2004.

Other Income (Expense)

Other income (expense) increased to a gain of \$26,000 for the year ended December 31, 2004, compared to a loss of \$80,000 for the twelve months ended December 31, 2003, an increase of \$106,000. Interest expense decreased by \$142,000 due to a decrease in interest expense on our EIS convertible promissory notes, offset by an increase in interest expense from our GE Capital notes, and a decrease of \$8,000 in interest income for the year ended December 31, 2004, as compared to the twelve months ended December 31, 2003.

Beneficial Conversion Feature Accretion of Issuance Costs, Preferred Dividends and Fair Value of Warrants Issued to Convertible Preferred Stockholders

Charges related to preferred stock decreased to \$24.8 million for the year ended December 31, 2004, from \$36.3 million for the twelve months ended December 31, 2003. For the year ended December 31, 2004, charges were primarily comprised of beneficial conversion charges of \$19.5 million on Series E, Series I and Series J convertible preferred stock, accretion of issuance costs of \$106,000, and preferred dividends of \$5.2 million (see Notes 3 and 8 to our consolidated financial statements in this prospectus). For the twelve months ended December 31, 2003, charges were primarily comprised of beneficial conversion charges of \$33.9 million on Series A, B, C, F and H convertible preferred stock, and Series E, I and J mandatorily redeemable convertible preferred stock, accretion of issuance costs of \$86,000, and preferred dividends of \$2.8 million (see Notes 3, 8 and 11 to our consolidated financial statements in this prospectus).

Year Ended June 30, 2003 Compared to Year Ended June 30, 2002

Grant Revenue

Grant revenue for the year ended June 30, 2003, was \$474,000 compared to \$132,000 for the year ended June 30, 2002. For the year ended June 30, 2003, we deferred approximately \$95,000 in grant revenue since it related to funding for the purchase of equipment.

Research and Development

Research and development expense for the year ended June 30, 2003, was \$17.5 million, as compared to \$11.1 million for the year ended June 30, 2002, an increase of approximately \$6.4 million, or 57.7%. The increase was primarily attributable to acceleration in patient enrollment for both the Phase 2 clinical trial of Fampridine-SR in MS, as well as two Phase 3 clinical trials of Fampridine-SR in SCI. The SCI study expenses increased to \$5.8 million for the year ended June 30, 2003, as compared to \$3.4 million for the year ended June 30, 2002, an increase of \$2.4 million, or 70.6%. The MS study expense increased to \$1.6 million for the year ended June 30, 2003, as compared to \$900,000 for the year ended June 30, 2002.

Operating and other contract expense for clinical development and preclinical research and development increased to \$8.4 million for the year ended June 30, 2003, as compared to \$6.0 million for the year ended June 30, 2002, an increase of \$2.4 million, or 40.0%. These expenses include a non-cash stock-based compensation expense of \$478,000 for the year ended June 30, 2003, as compared to \$455,000 for the year ended June 30, 2002. This increase is also attributable to increased staffing and support required for the new clinical trials.

Research and development-related party expenses were \$2.3 million for the year ended June 30, 2003, as compared to \$4.7 million for the year ended June 30, 2002, a decrease of \$2.4 million, or 51.1%. This decrease in expense was due to reduced development activities by Elan related to Fampridine-SR during the year ended June 30, 2003.

General and Administrative

General and administrative expense of \$6.4 million remained relatively flat for the year ended June 30, 2003, as compared to \$6.6 million for the year ended June 30, 2002. The decrease in general and administrative expense was primarily due to management's decision to defer spending for market research and medical communications during the year ended June 30, 2003. General and administrative expenses also include non-cash stock based compensation expense of \$1.1 million for the year ended June 30, 2003, as compared to \$950,000 for the year ended June 30, 2002, an increase of approximately \$150,000, or 15.8%.

Other Income (Expense)

Other income (expense) decreased to a loss of \$28,000 for the year ended June 30, 2003, compared to a gain of \$576,000 for the year ended June 30, 2002, a decrease of \$604,000. This decrease was primarily attributable to a decrease in interest income of \$591,000 due to lower average cash balances and lower interest earned on cash balances during the year ended June 30, 2003.

Minority Interest

Minority interest decreased to \$0 for the year ended June 30, 2003, compared to \$580,000 for the year ended June 30, 2002. Elan's previous ownership interest in MSRD, a joint venture that was owned approximately 83% by Acorda and approximately 17% by Elan and another minority stockholder, was reflected as minority interest in our consolidated financial statements. In the year ended June 30, 2003, Elan ceased funding its share of the joint venture's expenses, and therefore there is no minority interest for the year ended June 30, 2003. The assets of this joint venture were transferred to us as of September 2003.

Beneficial conversion feature, accretion of issuance costs, preferred dividends and fair value of warrants issued to convertible preferred stockholders

Charges related to preferred stock increased to \$24.3 million for the year ended June 30, 2003, as compared to \$55,000 for the year ended June 30, 2002. For the year ended June 30, 2003, charges were primarily comprised of accretion of issuance costs of \$66,000 on Series E, Series I and Series J mandatorily redeemable convertible preferred stock, accrual of preferred dividend of \$630,000 on Series J mandatorily redeemable convertible preferred stock, accretion of beneficial conversion feature of \$23.6 million on Series A through Series J preferred stock for reset in conversion price and accretion of beneficial conversion feature of \$1.1 million on Series J preferred stock (see Notes 3, 8 and 11 to our consolidated financial statements included in this prospectus). For the year ended June 30, 2002, charges were primarily comprised of accretion of issuance costs on Series E and Series I mandatorily redeemable convertible preferred stock (see Note 3 and 8 to our consolidated financial statements included in this prospectus).

Liquidity and Capital Resources

We have incurred annual operating losses since inception, and, as of September 30, 2005, we had an accumulated deficit of approximately \$198.5 million. We have financed our operations primarily through private placements of our securities, and, to a lesser extent, from loans, government grants and, more recently, our financing arrangement with PRF.

Financing Arrangements

From our inception through September 30, 2005, we raised aggregate net proceeds of \$147.9 million through private placements of equity securities. In January 1997, EIS loaned us an aggregate of \$7.5 million pursuant to two convertible promissory notes to partly fund our research and development activities, all of which was outstanding as of June 30, 2005. In August and September 2002, we financed certain of our fixed assets through two financing agreements with General Electric Capital Corporation, or GE Capital, in the aggregate amount of approximately \$1.2 million, of which \$194,000 was outstanding as of September 30, 2005. In January 2005, we entered into a \$6.0 million senior secured term loan, which is collateralized by all of our personal property and fixtures, other than the property that secures our revenue interests assignment arrangement with PRF.

On December 23, 2005, we entered into a Revenue Interests Assignment Agreement with PRF, a dedicated healthcare investment fund, pursuant to which we assigned to PRF the right to a portion of our net revenues (as defined in the agreement) from Zanaflex Capsules, Zanaflex tablets and any

future Zanaflex products. To secure our obligations to PRF, we also granted PRF a security interest in substantially all of our assets related to Zanaflex. Our agreement with PRF covers all Zanaflex net revenues generated from October 1, 2005 through and including December 31, 2015, unless the agreement terminates earlier. Under the agreement, PRF is entitled to the following portion of Zanaflex net revenues:

with respect to Zanaflex net revenues up to and including \$30.0 million for each fiscal year during the term of the agreement, 15% of such net revenues;

with respect to Zanaflex net revenues in excess of \$30.0 million but less than and including \$60.0 million for each fiscal year during the term of the agreement, 6% of such net revenues; and

with respect to Zanaflex net revenues in excess of \$60.0 million for each fiscal year during the term of the agreement, 1% of such net revenues.

Notwithstanding the foregoing, once PRF has received and retained payments under the agreement that are at least twice the aggregate amount PRF has paid us under the agreement, PRF will only be entitled to 1% of Zanaflex net revenues. In connection with the transaction, we recognized a short-term liability of approximately \$11.3 million.

In consideration for our assignment of the right to receive a portion of Zanaflex net revenues, PRF paid us \$15.0 million at signing of the agreement. We used approximately \$3.0 million of the signing payment to repay a portion of the amount we owe to GE Capital, approximately \$400,000 of the signing payment for fees and expenses associated with such repayment and \$500,000 of the signing payment to reimburse PRF for expenses it estimated it incurred in the transaction. If \$500,000 exceeds the actual amount of expenses PRF incurred in the transaction, PRF is required to pay us the excess within 90 days of the signing date. Under our agreement with PRF, we are required to use the remainder of the amount we received at signing and any other amounts we receive under the agreement to support commercialization, sales, marketing, clinical and regulatory activities and other financial obligations related specifically and solely to our Zanaflex operations. We may not use any proceeds from our agreement with PRF to support any of our other products unless such use is ancillary to the support of commercialization of Zanaflex.

At our election, PRF is also required to pay us (i) an additional \$5.0 million if our Zanaflex net revenues in 2005 equal or exceed \$11.0 million and our Zanaflex net revenues in the first six months of 2006 equal or exceed \$16.0 million, and (ii) an additional \$5.0 million if our Zanaflex net revenues in 2006 equal or exceed \$33.5 million. If we meet these milestones and decide to borrow these additional funds, we would be required to pay PRF \$5.0 million on December 1, 2009 in the case of the first additional payment and \$5.0 million on December 1, 2010 in the case of the second additional payment.

Upon the occurrence of certain events, including if we experience a change of control, undergo certain bankruptcy events, transfer any of our interests in Zanaflex (other than pursuant to a license agreement, development, commercialization, co-promotion, collaboration, partnering or similar agreement), transfer all or substantially all of our assets, or breach certain of the covenants, representations or warranties we make under the agreement, PRF may (i) require us to repurchase the rights we sold them at the "put/call price" in effect on the date such right is exercised or (ii) foreclose on the Zanaflex assets that secure our obligations to PRF. Except in the case of certain bankruptcy events, if PRF exercises its right to cause us to repurchase the rights we assigned to it, PRF may not foreclose unless we fail to pay the put/call price as required. If we experience a change of control or complete an initial public offering of shares of our common stock that results in our having a total market capitalization in excess of \$150.0 million, we have the right to repurchase the rights we sold to PRF at the "put/call price" in effect on the date such right is exercised. The put/call price on a given

date is the greater of (i) 150% of all payments made by PRF to us as of such date, less all payments received by PRF from us as of such date, and (ii) an amount that would generate an internal rate of return to PRF of 25% on all payments made by PRF to us as of such date, taking into account the amount and timing of all payments received by PRF from us as of such date.

During any period during which PRF has the right to receive 15% of Zanaflex net revenues, then 8% of the first \$30.0 million in gross product revenues (as defined in the agreement) for Zanaflex we receive in any fiscal year will be distributed to PRF on a daily basis. Following the end of each fiscal quarter, if the aggregate amount actually received by PRF during such quarter exceeds the amount of net revenues PRF was entitled to receive, PRF will remit such excess to us. If the amount of net revenues PRF was entitled to receive during such quarter under the first paragraph above exceeds the aggregate amount actually received by PRF during such quarter, we will remit such excess to PRF.

PRF also has the right to appoint a representative to receive all notices and materials provided to our board of directors and to attend as an observer all meetings of our board of directors, subject to certain exceptions. This right will terminate on the earlier to occur of the fourth anniversary of the completion of an initial public offering of shares of our common stock or termination of the Revenue Interests Assignment Agreement.

Investment Activities

At September 30, 2005, cash and cash equivalents and short-term investments were approximately \$8.7 million, as compared to \$23.6 million at September 30, 2004. Our cash and cash equivalents consist of highly liquid investments with original maturities of three months or less at date of purchase and consist of time deposits and investments in money market funds with commercial banks and financial institutions and high-quality government and investment grade corporate bonds. Also, we maintain cash balances with financial institutions in excess of insured limits. We do not anticipate any losses with respect to such cash balances. Our short-term investments consist of corporate debt securities with original maturities greater than three months and less than one year. The balance of these investments was \$5.2 million as of September 30, 2005, as compared to \$18.7 million as of September 30, 2004. As of September 30, 2005, our cash and cash equivalents were \$3.6 million, and our short-term investments were \$5.2 million, as compared to \$4.9 million and \$18.7 million respectively, as of September 30, 2004.

Net Cash Used by Operations

Net cash used by operations was \$18.1 million, \$24.3 million, and \$26.9 million for the years ended June 30, 2002 and 2003 and the year ended December 31, 2004, respectively, and \$25.8 million and \$16.9 million for the nine months ended September 30, 2004 and 2005, respectively. Cash used by operations for the nine months ended September 30, 2005 was primarily attributable to a net loss of \$26.0 million, an increase in prepaid expenses and other current assets of \$1.5 million, a decrease in return-related liabilities of \$2.1 million and an increase in inventory of \$4.5 million attributable to the launch of Zanaflex Capsules. Cash used in operations for the nine months ended September 30, 2005, was offset by stock compensation expense of \$3.5 million, an increase in deferred revenue of \$9.0 million from Zanaflex sales, and a \$2.7 million increase in accounts payable, accrued expenses and other current liabilities. Amounts classified as royalty payable as of December 31, 2004, are included in accounts payable, accrued expenses and other current liabilities as of September 30, 2005, due to their reclassification as a current liability.

Cash used by operations for the nine months ended September 30, 2004, of \$25.8 million was primarily due to a net loss of approximately \$32.5 million, an increase in accounts receivable of \$1.6 million due to the acquisition of Zanaflex and a decrease in accounts payable of \$2.4 million due to timing of our payments. The cash used in operations for the nine months ended September 30, 2004,

was offset by stock compensation expense of \$7.3 million and an increase in deferred revenue of \$2.8 million due to Zanaflex sales.

Cash used by operations for the year ended December 31, 2004, of \$26.9 million was due to a net loss of \$44.7 million, a \$1.9 million increase in accounts receivable from Zanaflex sales and a \$3.4 million decrease in accounts payable; accrued expenses and other current liabilities, primarily due to a \$1.1 million decrease in bonus accruals. Cash used by operations for the year ended December 31, 2004, was offset by stock compensation expense of \$9.1 million, depreciation and amortization expense of \$1.2 million; an increase in deferred product revenue of \$6.7 million; an increase in returns liability of \$4.1 million; amortization of discount on short-term investments of \$1.7 million; and an increase in royalty payable of \$750,000 for Zanaflex sales.

Cash used by operations for the year ended June 30, 2003, of \$24.3 million was due to a net loss of \$25.7 million; a reduction in amounts due to Elan of \$593,000, primarily due to lower drug development charges; an increase in prepaid expenses and other current assets of \$402,000; a \$154,000 increase in interest receivable on our short term investments and an increase in other receivables and an increase in grant receivable of \$214,000. The cash used in operations for the year ended June 30, 2003 was offset by stock compensation expense of \$1.6 million, depreciation and amortization expense of \$740,000 and amortization of debt discount relating to our \$7.5 million aggregate principal amount convertible notes payable to EIS of \$219,000.

Cash used by operations for the year ended June 30, 2002, of \$18.1 million was due to a net loss of approximately \$21.2 million and minority interest of \$580,000. The cash used in operations for the year ended June 30, 2002, was partially offset by stock compensation expenses of \$1.4 million; expensing of warrants and beneficial conversion charge of \$618,000 on Series C preferred stock issued to Elan, an increase of \$580,000 primarily due to increased drug development charges from Elan, depreciation and amortization expense of \$417,000, amortization of debt discount relating to our \$7.5 million aggregate principal amount of convertible promissory notes payable to EIS of \$258,000, increase in accounts payable and accrued expenses and other current liabilities of \$224,000 due to higher expenses incurred as research and development progress.

Net Cash Used in/Provided by Investing

Net cash provided by investing activities for the nine months ended September 30, 2005, was \$3.2 million, primarily due to \$4.1 million in net proceeds received from maturities of short-term investments. In addition, we purchased property and equipment of \$142,000 in the nine months ended September 30, 2005. Net cash provided by investing activities for the nine months ended September 30, 2005 was offset by \$750,000 in purchases of intangible assets relating to the Zanaflex milestone accrual. Net cash provided by investing activities for the nine months ended September 30, 2004, was \$10.5 million, primarily due to \$12.9 million in net proceeds received from maturities of short-term investments. Net cash provided by investing activities for the nine months ended September 30, 2004, was offset by \$2 million in purchases of intangible assets related to the acquisition of Zanaflex and \$463,000 in purchases of property and equipment. We had no material commitments to purchase property and equipment as of September 30, 2005.

Net cash provided by investing activities for the year ended December 31, 2004, was \$18.6 million, primarily due to \$21.1 million in net proceeds received from maturities of short-term investments. Net cash provided by investing activities for the year ended December 31, 2004, was offset by \$2.0 million in purchases of intangible assets related to the acquisition of Zanaflex and \$532,000 in purchases of property and equipment.

Net cash used in investing activities for the year ended June 30, 2003 was \$10.4 million, primarily due to the net reinvestment of \$9.7 million of surplus cash into marketable securities and purchase of property and equipment of \$748,000. Net cash used in investing activities for the year ended June 30,

2002 was \$5.1 million and was primarily due to purchase of short-term investment of \$2.8 million and purchase of purchased property and equipment of \$2.2 million in the year ended June 30, 2002. We incurred significant expenses in acquiring property and equipment in the year ended June 30, 2002 as a result of the expansion of our office and laboratory facilities.

Net Cash Used in/Provided by Financing

Net cash provided by financing activities for the nine months ended September 30, 2005, was \$5.6 million, primarily due to \$5.8 million in proceeds received from the GE Capital senior secured loan and \$215,000 in proceeds received from issuance of warrants to GE Capital in conjunction with the issuance of the GE Capital senior secured loan, offset by approximately \$429,000 in repayments of notes payable.

Net cash provided by financing activities for the nine months ended September 30, 2004, was \$11.2 million, primarily due to proceeds from issuance of preferred stock. In March 2004, we completed a private placement of 1,533,327 shares of Series K mandatorily redeemable convertible preferred stock at \$7.50 per share for an aggregate purchase price of approximately \$11.5 million. Issuance costs of \$55,000 related to this financing were netted against proceeds received. Net cash provided by financing activities for the nine months ended September 30, 2004, was offset by \$240,000 in repayments of notes payable to GE Capital.

Net cash provided by financing activities for the year ended December 31, 2004, was \$11.1 million, primarily due to proceeds from issuance of the Series K preferred stock. Net cash provided by financing activities for the year ended December 31, 2004, was offset by \$324,000 in repayments of notes payable to GE Capital.

Net cash provided by financing activities in the years ended June 30, 2003, and 2002 was \$55.9 million and \$2.1 million, respectively. The cash provided in the year ended June 30, 2003, was primarily due to proceeds of \$55.3 million from the issuance of Series J mandatorily redeemable stock. Issuance costs of \$334,000 related to this financing were netted against proceeds received. In the year ended June 30, 2003, also we entered into two financing agreements with GE Capital and received aggregate proceeds in the amount of \$1.2 million. In the year ended June 30, 2002, we received proceeds from the issuance of preferred stock of approximately \$1.3 million. Proceeds from the issuance of preferred stock primarily consisted of the issuance of 150,000 Series B preferred stock for an aggregate purchase price of \$300,000 and 333,333 Series C preferred stock for an aggregate purchase price of \$1.0 million to Elan as part of our January 1997 License and Supply Agreement.

Future Capital Needs

Our future capital requirements will depend on a number of factors, including the amount of revenue generated from sales of Zanaflex Capsules, the continued progress of our research and development activities, the timing and outcome of regulatory approvals, the amount and timing of milestone or other payments made under collaborative agreements, the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights and the acquisition of licenses to new products or compounds. We expect to incur losses from operations for at least the next several years as we continue to expand our sales and marketing infrastructure and increase our marketing efforts to support the commercialization of Zanaflex Capsules, continue our clinical development of Fampridine-SR and advance our preclinical programs.

We believe our existing cash and cash equivalents and short-term investment, together with the net proceeds from our financing arrangement with PRF and this offering, will be sufficient to fund our operating expenses, debt repayments and capital equipment requirements for approximately the next 18 months from the date of this prospectus. To the extent our capital resources are insufficient to meet future operating requirements, we will need to raise additional capital or incur indebtedness to fund

our operations. We may be unable to obtain additional debt or equity financing on acceptable terms, if at all. If adequate funds are not available, we may be required to curtail our sales and marketing efforts, delay, reduce the scope of or eliminate some of our research and development programs or obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to certain product candidates that we might otherwise seek to develop or commercialize independently.

Contractual Obligations and Commitments

In January 2005, we entered into a \$6.0 million senior secured term loan with GE Capital. We are required to pay monthly installments until February 2008, with interest-only payments for the first six months followed by principal and interest payments for the remaining 29 months. Interest is fixed at the rate of 9.93% per annum. The loan is secured by all of our personal property and fixtures, other than the property that secures our financing arrangement with PRF.

In 2002, we entered into two financing agreements with GE Capital for an aggregate amount of approximately \$1.2 million, to finance the purchase of certain property and equipment. One note is for \$766,781 and bears an annual fixed interest rate of 8.88%. The second note is for \$386,731 and bears an annual fixed interest rate of 8.57%. These financing arrangements are secured by certain of our property and equipment and do not include any debt covenants. We are required to pay monthly installments until October 2006. The aggregate principal payments required subsequent to June 30, 2005 are \$129,115 in 2005, and \$144,654 in 2006.

In January 1997, EIS loaned us an aggregate of \$7.5 million pursuant to two convertible promissory notes. One promissory note in the principal amount of \$5.0 million bears interest at a rate of 3% which began on the first anniversary of the note. The other promissory note in the amount of \$2.5 million is non-interest bearing. The unpaid principal of \$5.0 million note is convertible into shares of our Series D preferred stock at a conversion price of \$12.50 per share. The \$2.5 million promissory note is convertible after January 22, 1999, into either shares of Series B preferred stock at a conversion price of \$2.00 per share or into an undesignated series of preferred stock at a conversion price equal to 80% of the most recently completed equity financing, whichever conversion price is greater. If our preferred stock is no longer outstanding, these notes will be convertible into shares of our common stock. Principal and interest are repayable, if not converted, ratably over a seven-year period, beginning one year after we receive regulatory approval for certain products to be developed, subject to limitations related to gross margin on product sales. If we and Elan determine that regulatory approval will not likely occur, the \$5.0 million promissory note will automatically convert into the underlying common stock. If our license and supply agreements with Elan are terminated for any other reason, the principal and interest is repayable ratably over 15 years. Both promissory notes restrict our ability to incur indebtedness that is senior to the notes, subject to certain exceptions, including for our revenue interests assignment arrangement with PRF.

Under our Zanaflex purchase agreement with Elan, we are obligated to make milestone payments to Elan of up to \$19.5 million based on cumulative gross sales of Zanaflex tablets and Zanaflex Capsules. As of September 30, 2005, we have made or accrued \$4.5 million of these milestone payments in the consolidated financial statements. Under our Zanaflex supply agreement with Elan, we are required to provide to Elan an 18-month rolling forecast at the beginning of each month and a two-year forecast not later than July 1 of each year. We are bound to order one hundred percent of the forecast required quantities for each five month period immediately following each monthly forecast report. At September 30, 2005, the forecast requirement for the five month period following September 30, 2005 amounted to approximately \$4.9 million.

Under our Fampridine-SR license agreement with Elan, we are obligated to make milestone payments to Elan of up to \$15.0 million over the life of the contract and royalty payments as a

percentage of product sales. In addition, under our various other research, license and collaboration agreements we are obligated to make milestone payments of up to an aggregate of approximately \$16.8 million over the life of the contracts.

The following table summarizes our minimum contractual obligations as of December 31, 2004. This table does not reflect contingent milestone or royalty payments that may result in future periods from our collaborations, alliances and/or license agreements. This table should be read in conjunction with the accompanying notes to our consolidated financial statements:

Twelve Month Period Ending December 31,	Notes Payable(1)	Operating Leases
(in thousands)		
2005	\$ 1,202	\$ 642
2006	2,462	642
2007	2,558	642
2008	225	53
Total	\$ 6,447	\$ 1,979

(1) The notes payable represents the principal and interest payable on the GE Capital notes payable and does not include the \$7.5 million aggregate principal amount of convertible notes payable to EIS or milestone payments under our license agreements as these amounts are payable on contingent events. In December 2005, we used a portion of the initial payment we received from our financing arrangement with PRF to repay approximately \$3.0 million of the GE Capital notes payable. In connection with the PRF transaction, we incurred a short-term obligation of approximately \$1.3 million. The payment changed the aggregate principal payments to GE required subsequent to December 31, 2004 to: \$3,858,654 in 2005; \$890,521 in 2006; \$1,062,180 in 2007; and \$187,645 in 2008. The related interest payments required subsequent to December 31, 2004 are: \$524,687 in 2005; \$163,196 in 2006; \$76,683 in 2007; and \$2,332 in 2008.

Under the terms of the employment agreement with our chief executive officer, Ron Cohen, we are obligated to pay severance under certain circumstances. If the employment agreement is terminated by us or by our chief executive officer for reasons other than for cause, we must pay (i) an amount equal to the base salary the chief executive officer would have received during the fifteen month period immediately following the date of termination, plus (ii) bonus equal to last annual bonus received by chief executive officer multiplied by a fraction, the numerator of which shall be the number of days in the calendar year elapsed as of the termination date and the denominator of which shall be 365.

Under the terms of the employment agreements with our Chief Scientific Officer, Andrew Blight, our Chief Operating Officer, Mary Fisher, our Chief Financial Officer, David Lawrence and our General Counsel, Jane Wasman, we are obligated to pay severance under certain circumstances. In the event we terminate our employment agreement with Dr. Blight, Ms. Fisher, Mr. Lawrence or Ms. Wasman without cause, or if one of them voluntarily terminates his or her agreements with good reason, we are obligated to make severance payments equal to nine months base annual salary, in the case of Dr. Blight and Ms. Fisher, and seven months base annual salary, in the case of Mr. Lawrence and Ms. Wasman, as well as COBRA premium payments for the severance period. In such event, all options, stock appreciation rights awards and restricted stock awards that have vested as of the termination date shall remain exercisable for 90 days following such date. All unvested options, stock appreciation rights awards and stock awards will be cancelled on the date of termination. If Dr. Blight, Ms. Fisher, Mr. Lawrence or Ms. Wasman voluntarily terminates his or her employment without good reason or if we terminate his or her employment without cause within 18 months after a change in control, we are obligated to make severance payments equal to one year's base annual salary, in the case of Dr. Blight and Ms. Fisher, and nine months base annual salary, in the case of Mr. Lawrence and Ms. Wasman, in each case paid in a lump sum within 30 days after termination, as well as COBRA premium payments for the severance period plus a bonus equal to the prior year's bonus pro rated for the number of days worked prior to termination. We are also obligated to pay salary earned but not

paid, vacation and sick leave days that have accrued, and reimbursable business expenses incurred through the date of termination. In such event, not less than 50% of the unvested options, stock appreciation rights and restricted or other stock awards shall become immediately and full vested and shall remain exercisable for 18 months following such date. All options that have vested as of the termination date shall remain exercisable for 90 days following such date. All unvested options, stock appreciation rights awards and stock awards will be cancelled on the date of termination.

Subsequent Events

For a discussion of material events that have taken place subsequent to September 30, 2005, please refer to Note 17 to our consolidated financial statements included in this prospectus.

Quantitative and Qualitative Disclosures about Market Risk

Our financial instruments consist of cash and cash equivalents, short-term investments, grant receivable, notes payable, convertible notes payable and accounts payable. The estimated fair values of all of our financial instruments, excluding convertible notes payable to EIS, approximate their carrying amounts at September 30, 2005. The terms of these notes are disclosed at Note 11 to the consolidated financial statements.

We have cash equivalents and short-term investments at September 30, 2005, which are exposed to the impact of interest rate changes and our interest income fluctuates as our interest rates change. Due to the short-term nature of our investments in money market funds and corporate debt securities, the carrying value of our cash equivalents and short-term investments approximate their fair value at September 30, 2005.

We maintain an investment portfolio in accordance with our investment policy. The primary objectives of our investment policy are to preserve principal, maintain proper liquidity to meet operating needs and maximize yields. Although our investments are subject to credit risk, our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure from any single issue, issuer or type of investment. Our investments are also subject to interest rate risk and will decrease in value if market interest rates increase. However, due to the conservative nature of our investments and relatively short duration, interest rate risk is mitigated. We do not own derivative financial instruments. Accordingly, we do not believe that there is any material market risk exposure with respect to derivative or other financial instruments.

Effects of Inflation

Our most liquid assets are cash, cash equivalents and short-term investments. Because of their liquidity, these assets are not directly affected by inflation. Because we intend to retain and continue to use our equipment, furniture and fixtures and leasehold improvements, we believe that the incremental inflation related to replacement costs of such items will not materially affect our operations. However, the rate of inflation affects our expenses, primarily employee compensation and contract services, which could increase our level of expenses.

Critical Accounting Policies and Estimates

The following discussion of critical accounting policies identifies the accounting policies that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. It is not intended to be a comprehensive list of all of our significant accounting policies, which are more fully described in Note 2 of the notes to the consolidated financial statements included in this prospectus. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's

judgment in their application. There are also areas in which the selection of an available alternative policy would not produce a materially different result. We have identified the following as our areas of critical accounting policies: sales revenue recognition, research and development, income taxes, and stock-based compensation.

Revenue Recognition

We apply the revenue recognition guidance in SFAS No. 48, *Revenue Recognition When the Right of Return Exists*, which among other criteria requires that future returns can be reasonably estimated in order to recognize revenue. Under SFAS 48 we are not permitted to recognize revenue until we can reasonably estimate the likely return rate for our products. Since we have only limited sales history with Zanaflex Capsules and due to generic competition and customer conversion from Zanaflex tablets to Zanaflex Capsules, we do not believe we can reasonably determine a return rate. As a result, we account for sales of these products using a deferred revenue recognition model. At a future point in time, which could be in a number of years, when we are able to reasonably estimate product returns we will begin to recognize revenue based on shipments of product to our wholesale drug distributors.

Under our deferred revenue model, we do not recognize revenue upon shipment of product to our wholesale drug distributors. Instead, we record deferred revenue at gross invoice sales price, and classify the cost basis of the inventory shipped as a component of inventory. We recognize revenue when prescriptions are filled to an end-user because once a prescription is filled the product cannot be returned. We use monthly prescription data that we purchase from NDC Health, a leading provider of healthcare data, to determine the amount of revenue to be recognized. We receive this data approximately 45 days after the end of a given month. We estimate prescription sales until the NDC data becomes available, at which time adjustments are made to revenue and cost of sales to account for any differences between our estimates and the actual data. To date such differences have been immaterial. When we receive the prescription data, we use the number of units of product prescribed to record gross sales. We then reduce deferred revenue and record cost of goods sold. We began receiving end-user prescription data in March 2005 which enabled us to begin recognizing revenue from Zanaflex tablet sales. We began marketing Zanaflex Capsules in April 2005 and began receiving prescription data and recognizing revenue in the same month.

In addition to the prescription data we receive from NDC Health, we also receive data that we use to monitor ex-wholesaler sales trends. We receive this data from an outside vendor on a monthly basis. This data includes bottles shipped from certain wholesalers to their accounts/customers. We also periodically compare our ex-factory shipments to prescription reports to further assess inventory in the distribution channel.

We accept returns of products for six months prior to and 12 months after their expiration date. Returns of products sold by us are charged directly against deferred revenue, reducing the amount of deferred revenue that we may recognize.

Sale of Zanaflex Tablet Inventory Acquired From Elan

When we acquired Zanaflex from Elan, we also acquired Elan's inventory of Zanaflex tablets. This inventory included partial lots with expiration dating of less than 12 months and full lots with expiration dating greater than 12 months. We have deferred recognition of any revenue from sales of the partial lot inventory until the return period for the product expires in June 2006, and will recognize revenue then only to the extent that deferred revenues exceed returns. We cannot use prescription data to recognize revenue associated with the partial lot inventory acquired from Elan because we cannot determine whether the prescription was filled with product that Elan sold prior to our acquisition of Zanaflex or with product we sold.

All Zanaflex tablet partial lot inventory that we acquired from Elan has either been sold or is no longer being sold by us. As a result, after the return period expires in June 2006, there will no longer be deferred revenue associated with the Zanaflex tablet partial lot inventory acquired from Elan.

In July 2005 we began to recognize revenue from the full lots based on prescriptions filled for Zanaflex tablets. All of the Zanaflex tablet inventory sold by Elan prior to our acquisition reached expiration in June 2005, therefore any prescriptions filled for Zanaflex tablets subsequent to June 2005 must be from the full inventory lots acquired by and sold by us.

We are uncertain about the amount of returns that we may receive on these products, for a number of reasons including our limited historical returns experience. Returns of Zanaflex tablet inventory acquired from Elan and sold by us are charged against deferred revenue, reducing the amount of deferred revenue that we may recognize.

At December 31, 2004, and September 30, 2005, we had deferred revenue from Zanaflex tablets of \$6.6 million and \$10.7 million (unaudited), respectively, of which \$3.6 million and \$2.5 million (unaudited), respectively, was related to product acquired from Elan that had an expiration date of less than 12 months at the time it was sold during 2004. We believe there is a high likelihood that this product will be returned, which would result in our inability to recognize related revenue.

Returns of Zanaflex Tablets sold by Elan

As part of the acquisition of Zanaflex, we agreed to accept any returns of Zanaflex tablets that were returned subsequent to January 17, 2005, including returns of product that was originally sold by Elan. Product returns prior to January 17, 2005, were the responsibility of Elan. We have recorded a charge of \$4.1 million in the year ended December 31, 2004, for the estimated returns of Zanaflex tablets sold by Elan. To the extent that returns exceed the estimated charge, we will be required to record further charges. The return period for Zanaflex tablets sold by Elan ends in June 2006, after which time we do not anticipate any further charges resulting from Zanaflex tablets sold by Elan.

Research and Development

Research and development expenses include the costs associated with our internal research and development activities including, salaries and benefits, occupancy costs, and research and development conducted for us by third parties, such as sponsored university-based research, and clinical trial vendors. In addition, research and development expenses include expenses related to grant revenue and the cost of clinical trial drug supply shipped to our clinical study vendors. We account for our clinical study costs by estimating the total cost to treat a patient in each clinical trial and recognizing this cost as we estimate when the patient receives treatment, beginning when the patient enrolls in the trial. This estimated cost includes payments to the trial site and patient-related costs, including laboratory costs related to the conduct of the trial. Cost per patient varies based on the type of clinical trial, the site of the clinical trial, and the length of the treatment period for each patient. As actual costs become known to us, we adjust our accrual; such changes in estimate may be a material change in our clinical study accrual, which could also materially affect our results of operations.

Income Taxes

As part of the process of preparing our financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. We account for income taxes by the liability method. Under this method, deferred income taxes are recognized for tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We have not recorded any tax provision or benefit for the years ended June 30, 2002 and 2003 and December 31, 2004 and for the nine months ended September 30, 2005. We have provided a valuation allowance for the full amount of our net deferred tax assets since realization of any future benefit from deductible temporary differences and net operating loss carry-forwards cannot be sufficiently assured at September 30, 2005.

As of September 30, 2005, we had available net operating loss carry-forwards of approximately \$63.5 million for federal and state income tax purposes, which are available to offset future federal and state taxable income, if any, and expire between 2009 and 2024 and research and development tax credit carry-forwards of approximately \$1.5 million for federal income tax reporting purposes which are available to reduce federal income taxes, if any, through 2018. Since our inception, we have incurred substantial losses and expect to incur substantial and recurring losses in future periods. The Internal Revenue Code of 1986, as amended, the Code, provides for a limitation of the annual use of net operating loss and research and development tax credit carry forwards (following certain ownership changes, as defined by the Code) that could significantly limit our ability to utilize these carry-forwards. We have experienced various ownership changes, as defined by the Code, as a result of past financings. Accordingly, our ability to utilize the aforementioned carry-forwards may be limited. Additionally, because U.S. tax laws limit the time during which these carry forwards may be applied against future taxes we may not be able to take full advantage of these attributes for federal income tax purposes.

Stock-Based Compensation

We account for options and restricted stock granted to employees and directors in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, and related interpretations. As such, compensation expense is recorded on stock option grants based on the fair value of the options granted, which is estimated on the date of grant using the Black-Scholes option-pricing model and it is recognized on a straight-line basis over the vesting period. Compensation expense for restricted stock granted is based on the fair value of the restricted stock granted and is recognized on a straight-line basis over the vesting period. We account for stock options granted to non-employees on a fair-value basis in accordance with SFAS No. 123, Emerging Issues Task Force Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, and FASB Interpretations No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans an Interpretation of APB Opinion No. 15 and 25*. As a result, the non-cash charge to operations for non-employee options with vesting or other performance criteria is affected each reporting period by changes in the estimated fair value of our common stock. The two factors which most affect charges or credits to operations related to stock-based compensation are the fair value of the common stock underlying stock options for which stock-based compensation is recorded and the volatility of such fair value. If our estimates of the fair value of these equity instruments change, it would have the effect of changing compensation expenses. Because shares of our common stock have not been publicly traded, we estimate the fair value of our common stock considering, among other factors, the most recent previous sale of convertible preferred stock (pro forma for the 1-for-1.3 reverse split that we intend to effect on or about the date of this prospectus). We do not discount the issuance price of our preferred stock in estimating the fair value of our common stock.

BUSINESS

Acorda Therapeutics is a commercial-stage biopharmaceutical company dedicated to the identification, development and commercialization of novel therapies that improve neurological function in people with spinal cord injury, or SCI, multiple sclerosis, or MS, and other disorders of the central nervous system, or CNS. Our marketed drug, Zanaflex Capsules, is FDA-approved for the management of spasticity. Our lead product candidate, Fampridine-SR, is in a Phase 3 clinical trial for the improvement of walking ability in people with MS. Our preclinical programs also target MS and SCI as well as other CNS disorders, including stroke and traumatic brain injury.

Approximately 650,000 people in the United States suffer from MS or SCI and the combined annual cost of treatment for these conditions exceeds \$13 billion. In addition, it is estimated that a total of approximately 10 million people live with the long-term consequences of traumatic brain injury and stroke in the United States. Our goal is to continue to grow as a fully-integrated biopharmaceutical company by commercializing therapeutic products, developing our product candidates and advancing our preclinical programs for these large and underserved markets.

Company Highlights

Our marketed drug, Zanaflex Capsules, is a differentiated product that addresses our core patient population. We own all marketing, sales and distribution rights in the United States to Zanaflex Capsules and Zanaflex tablets. Both products are FDA-approved for the management of spasticity, a symptom of many CNS disorders, including MS and SCI. These products contain tizanidine, one of the two leading treatments for spasticity. Zanaflex Capsules are an ideal strategic fit with our therapeutic focus and expertise. We believe that Zanaflex Capsules, which we launched in April 2005, offer important benefits over Zanaflex tablets and generic equivalents of Zanaflex tablets. When taken with food, Zanaflex Capsules are absorbed into the blood differently than the tablets, resulting in a lower and more gradual rise of peak blood levels. As a result, Zanaflex tablets and generic tizanidine tablets are not AB-rated with Zanaflex Capsules by the FDA, meaning that the FDA does not consider the tablet products to be therapeutically equivalent to Zanaflex Capsules. Therefore, under state laws, pharmacists may not properly substitute the tablets when filling a prescription for Zanaflex Capsules. In addition, Zanaflex Capsules are available in a higher dose and may be easier to take by people who have difficulty swallowing.

Our established specialty sales and marketing infrastructure provides a platform for growth. To support our commercialization of Zanaflex Capsules, we have established an internal sales force of 14 highly-experienced people who call on neurologists and other prescribers specializing in treating patients with spasticity. Members of this sales force also call on managed care organizations, pharmacists and wholesale drug distribution customers. We plan to expand our specialty sales force to approximately 30 sales professionals in the first quarter of 2006 to extend our reach among prescribers in the MS and SCI communities and our patient education outreach. In addition, Cardinal Health provides approximately 160 sales representatives to call on primary care physicians who currently prescribe Zanaflex tablets or generic tizanidine tablets. We also have a contract with Access Worldwide Communications to provide a small, dedicated sales force of pharmaceutical telesales professionals to contact primary care physicians, specialty physicians and pharmacists. We believe that the sales and marketing expertise we develop with Zanaflex Capsules will accelerate our commercialization of Fampridine-SR, if approved, since the target prescribers for both overlap substantially.

Our lead product-candidate Fampridine-SR is in a Phase 3 clinical trial for improvement of walking ability in people with MS. We are currently conducting a Phase 3 clinical trial under an SPA issued by the FDA. The FDA has agreed that this trial, if successful, could qualify as one of the

pivotal efficacy studies required for drug approval. We believe Fampridine-SR is the first potential therapy in late-stage clinical development for MS that seeks to improve the function of damaged nerve fibers and would be complementary to existing drugs used to treat MS. To our knowledge, there are no current therapies approved or in development that improve walking ability in people with MS.

Our preclinical nerve regeneration and remyelination programs have broad potential applicability. We have three preclinical programs focused on novel approaches to repair damaged components of the CNS. We believe all of our preclinical programs chondroitinase, neuregulins and remyelinating antibodies have the potential to be first-in-class therapies. While these programs have initially been focused on MS and SCI, we believe they may be broadly applicable across a number of CNS disorders, including stroke and traumatic brain injury, because many of the mechanisms of tissue damage and repair are similar. We believe that our preclinical programs also have applicability beyond the nervous system, including in such fields as orthopedics, cardiology, oncology and ophthalmology.

Our extensive scientific and medical network extends our reach and expertise in the core focus areas of MS and SCI. We have an established advisory team and network of well-recognized scientists, clinicians and opinion leaders in the fields of MS and SCI. Depending on their expertise, these advisors provide assistance in trial design, conduct clinical trials, keep us apprised of the latest scientific advances and help us identify and evaluate business development opportunities. In addition, we have recruited over 35 MS centers and 80 SCI rehabilitation centers in the United States and Canada to conduct our clinical trials. Our clinical management team has extensive experience in the areas of MS and SCI and works closely with this network.

Background and Market Opportunity

The Challenge of Nervous System Disorders

The spinal cord and brain together comprise the CNS. The billions of nerve cells that make up the CNS, in conjunction with the nerve bundles that run through all parts of the body, which is called the peripheral nervous system, transmit the electrical impulses necessary to sustain, regulate and monitor every aspect of human life. The spinal cord serves as the master link between the brain and the body and carries information that regulates movement, sensation and involuntary functions, such as breathing, blood pressure, temperature control, and bladder, bowel and sexual functions.

Nerve impulses travel within and between the brain and spinal cord via long, thin fibers, or axons, that transmit information to other nerve cells through microscopic junctions called synapses. When axons are damaged or lost, they do not normally regenerate, and there is only very limited adaptability, or plasticity, of the surviving axons that allow them to take over the role of damaged or lost axons. The myelin sheath that surrounds axons in the brain and spinal cord provides insulation that facilitates the transmission of nerve impulses. We refer to the axon and its surrounding myelin sheath as a nerve fiber. The myelin sheath is composed of multiple layers of tightly packed cell membrane and is vulnerable to damage in conditions like MS and SCI. Once damaged, it is often not effectively repaired. Although nerve fibers can survive in a demyelinated state, their ability to conduct nerve impulses may be completely lost or severely compromised.

Our Approach to the Market for CNS Disorders

We are focused on identifying, developing and commercializing novel pharmaceutical products that address large and underserved CNS markets. We view MS and SCI as the primary markets for our

products as well as strategic points of access to a broad range of additional neurological conditions for the following reasons:

Focusing on both MS and SCI provides insight into chronic and acute CNS conditions. MS represents a chronic degeneration of the CNS, whereas SCI represents an acute CNS injury followed by a relatively stable chronic condition.

Many of the mechanisms of secondary tissue damage and potential repair in MS and SCI are shared with other conditions, including stroke and traumatic brain injury.

The functional deficits and symptoms suffered by MS and SCI patients, such as walking impairments, spasticity and loss of bladder and bowel function, are shared by other CNS disorders.

A treatment that protects the spinal cord from the consequences of injury, regenerates neural connections, remyelinate or optimizes function of surviving structures in the spinal cord is likely to also be applicable to many conditions affecting the brain and the rest of the nervous system.

For people with MS, SCI and similar chronic neurological conditions, even relatively small and incremental improvements in CNS function can produce meaningful benefits in their quality of life.

Spasticity

Spasticity refers to the often painful involuntary tensing, stiffening or contracting of muscles. Spasticity is not a disease but a symptom of other conditions, such as MS, SCI, stroke, traumatic brain injury and cerebral palsy, where portions of the nervous system that control voluntary movement have been damaged. This damage results in the nerve cells in the spinal cord becoming disconnected from controlling centers in the brain and, as a result, transmitting unregulated impulses to the muscles. People who have spasticity may not experience it all the time it may be triggered by a stimulus, such as pain, pressure sores, cold weather or a urinary tract infection. Up to 75% of people with chronic SCI, and the majority of people with MS, experience some form of spasticity. We Move, a non-profit organization dedicated to movement disorders, estimates that spasticity affects approximately 500,000 people in the United States and over 12 million worldwide.

Current treatments for spasticity are focused on reducing spasm frequency, pain or irritating stimuli that can provoke spasticity. Treatment of spasticity often involves a combination of physical therapy and oral medications. Baclofen and tizanidine, the active ingredient in the Zanaflex products, are the two most frequently prescribed oral medications for spasticity. For more intractable spasticity, treatments sometimes include surgical or chemical destruction of nerve roots in the affected area.

Multiple Sclerosis

The National Multiple Sclerosis Society, or NMSS, currently estimates that 400,000 people in the United States have multiple sclerosis. The NMSS estimates that the medical costs associated with treating MS in the United States were approximately \$6.2 billion in 2004. Medications accounted for approximately \$3.5 billion of these costs. MS is more prevalent in Caucasians and women and is generally diagnosed between the ages of 20 and 50.

MS is a degenerative CNS disorder in which the immune system attacks and damages the insulating myelin sheath. This damage, which can occur at multiple sites in the CNS, blocks or diminishes conduction of electrical impulses. People with MS may suffer impairments in any number of neurological functions. These impairments vary from individual to individual and over the course of time, depending on which parts of the brain and spinal cord are affected, and often include difficulty walking, spasticity, fatigue, lack of stamina and loss or disturbance of vision. They may also include loss of sensation, loss of bowel and bladder control, sexual dysfunction, depression, neuropathic pain,

muscle paralysis, dizziness, tremors and cognitive difficulties. Individuals vary in the severity of the impairments they suffer on a day-to-day basis, with impairments becoming better or worse depending on the activity of the disease on a given day. An individual with MS may function normally one day and experience one or more symptoms of MS the next.

MS is generally classified by how the disease progresses. The most common classification is relapsing-remitting MS, in which people go through periods during which their disease is relatively stable or in remission, only to experience a recurrence of their disease, known as a relapse, which creates additional damage and loss of function. Approximately 10% of MS cases in the United States are diagnosed as primary progressive MS, which does not involve distinct attacks but rather a steady worsening of symptoms. Secondary progressive MS involves an initial period of relapsing-remitting disease followed by a steady worsening that is punctuated by more severe flare-ups and partial remissions. Most people with relapsing-remitting disease will eventually convert to secondary progressive disease, though this may not occur for many years.

There are no current treatments that address the weakness and loss of mobility that is a major aspect of the progressive disability experienced by people with MS. Existing treatments are classified as relapse management, disease course management and symptom relief.

Relapse Management. The majority of neurologists treating people with MS use intravenous high-dose corticosteroids for the treatment of sudden and severe relapses. Generally, people experiencing a severe relapse receive a four-day course of steroids on either an in-patient or out-patient basis. This treatment may shorten the time required for recovery from such a relapse.

Disease Course Management. Drugs that modify the immune reactions associated with nerve damage in MS include Avonex, Betaseron, Copaxone and Rebif. These drugs are approved only for the relapsing-remitting form of the disease. Other drugs that suppress the immune system include drugs initially approved to treat cancer, such as Novantrone, which is approved for the treatment of relapsing or secondary progressive MS, and methotrexate. These medications produce a reduction in relapse rate, rather than a halting or reversal of the disease process. They do not restore lost neurological function.

Symptom Relief. Doctors also prescribe a number of drugs to address the secondary disabilities, or symptoms, associated with MS. These include treatments for spasticity, fatigue, bladder and bowel control, depression and pain. Baclofen and tizanidine are the most frequently prescribed drugs for spasticity. Commonly prescribed drugs for other symptoms include Ditropan or Detrol for bladder dysfunction, Provigil for fatigue, fluoxetine for depression, and amitriptyline for pain.

Spinal Cord Injury

According to the National Spinal Cord Injury Statistical Center, approximately 250,000 people in the United States live with the long-term consequences of SCI and approximately 11,000 new spinal cord injuries occur each year, typically in young men. The majority of people with SCI are injured under the age of 30 and live with permanent disability and multiple related medical conditions for more than 40 years after their injury. The National Spinal Cord Injury Database at the University of Alabama estimates that the average lifetime costs directly attributable to SCI for an individual injured at age 25 varies from approximately \$600,000 to \$2.8 million depending on the severity of the injury.

The spinal cord can be injured by physical trauma that bends the neck or body violently, such as vehicular or diving accidents, or by objects that penetrate or impact the spinal cord, such as a bullet or a knife. The spinal cord can also be injured by loss of blood flow due to damage to major blood vessels or during surgical procedures. When an area of the spinal cord is damaged, motor and sensory function are impaired throughout those parts of the body that are below the level of the injury.

Until recently, SCI was considered an untreatable and incurable condition. Within the last two decades, researchers have shown that the spinal cord is not severed in most people with SCI. Rather, stretching or compression of the cord causes nerve fibers and blood vessels to tear and unleashes a secondary process of bleeding, loss of blood flow and inflammation that causes more tissue damage. The majority of people with spinal cord injury have some axons that survive within or around the site of injury. Because of these surviving axons, approximately 50% of people with SCI have some motor and/or sensory function remaining below the level of the injury and are said to have incomplete SCI. Those with no detectable function below the injury level are said to have complete SCI. Researchers have also shown that many axons that survive trauma are damaged and permanently lose part of their myelin sheath.

In addition to the impact of paralysis on mobility and independence, chronic SCI is often associated with several life-altering conditions that vary depending on the individual and the extent of injury. These include spasticity, as well as persistent pain, loss of control of bowel and bladder functions, loss of sexual function, compromised breathing, loss of sensation, and unstable control of blood pressure, heart rate and body temperature. There is no cure for SCI and no treatment available that is capable of improving neurological function. Methylprednisolone, a high-dose steroid, is currently the standard of care in the United States. Methylprednisolone is a one-time treatment administered to the patient immediately following an injury to prevent secondary tissue damage. There are several treatments for the symptoms of SCI, many of which are the same treatments used to address the symptoms of MS. We believe that novel therapies that offer even an incremental improvement in these conditions would have a meaningful impact on the quality of life for people with SCI.

Other Disorders of the Central Nervous System

Neurological injuries and degenerative diseases of the CNS, including stroke, traumatic brain injury, Parkinson's disease and Alzheimer's disease, are among the most devastating and costly of human ailments. These conditions are most often chronic and historically have been extremely difficult to treat. These disorders, like MS and SCI, involve damage to nerve cells and nerve fibers and would likely benefit from similar approaches to tissue protection and repair. For example, the inflammation process that occurs naturally after many types of tissue injury may damage both injured and healthy CNS cells. As with MS and SCI, these conditions could be treated with interventions that replace nerve cells, stimulate new nerve fiber growth, or increase the adaptability of connections within the nervous system.

Our Strategy

Our strategy is to continue to grow as a fully-integrated biopharmaceutical company focused on the identification, development and commercialization of a range of nervous system therapeutics. We are using our scientific, clinical and commercial expertise in MS and SCI as strategic points of access to additional CNS markets, including stroke and traumatic brain injury. Key aspects of our strategy are:

Maximize our revenue opportunity for Zanaflex Capsules. Our internal and external sales organization targets the relatively small number of prescribers responsible for writing 80% of tizanidine prescriptions in an effort to convert sales of Zanaflex tablets or generic tizanidine tablets to sales of Zanaflex Capsules. We plan to continue to expand our sales and marketing infrastructure and also implement marketing and educational programs to support Zanaflex Capsules. We are seeking FDA approval of improvements in labeling and we will also explore the potential for new indications.

Complete the clinical development of and obtain regulatory approval for Fampridine-SR in MS. We have advanced Fampridine-SR into a Phase 3 clinical trial for the improvement of walking ability in people with MS. The FDA has agreed that this trial, if successful, could be one of the pivotal

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trials necessary for regulatory approval. We may also pursue subsequent approvals of Fampridine-SR in additional CNS disorders, including SCI.

Leverage the commercial presence of Zanaflex Capsules for the potential launch of Fampridine-SR. We expect that the sales and marketing expertise we are developing with Zanaflex Capsules will provide a strong foundation for the commercial launch of Fampridine-SR, if approved by the FDA. Target prescribers for both Zanaflex and Fampridine-SR are likely to overlap substantially. Through our acquisition of the Zanaflex products, we have been able to strengthen our long-standing relationships with the physician and patient communities for both MS and SCI.

Advance our pipeline of preclinical programs into clinical trials. We have two preclinical programs focused on remyelination and one on nerve fiber regeneration and enhanced CNS plasticity. In order to advance these programs we are using our in-house scientific expertise and animal modeling capabilities, supplemented by outside service providers and the development work of our partners. We are also seeking partnering and additional grant funding opportunities for these programs.

Pursue additional alliances for approved and development stage products. We believe that our commercial infrastructure, specialty sales force and relationships with clinicians and patient communities for MS and SCI make us an attractive partner to in-license products and clinical programs that would be marketed to these groups. We also intend to enter into co-marketing and co-promotion agreements for marketing our approved products outside of the United States and may enter into co-development agreements for our preclinical programs.

Our Product Pipeline

Name	Primary Indication	Status	Marketing Rights
Zanaflex Capsules	Spasticity	FDA-approved	U.S.
Zanaflex (tablets)	Spasticity	FDA-approved	U.S.
Fampridine-SR	MS	Phase 3	Worldwide
Chondroitinase Program	SCI	Preclinical	Worldwide
Neuregulin Program	MS	Preclinical	Worldwide
Remyelinating Antibody Program	MS	Preclinical	Worldwide

Zanaflex Products

Zanaflex Capsules and Zanaflex tablets are short-acting drugs approved by the FDA for the management of spasticity. We acquired all of Elan's U.S. sales, marketing and distribution rights to Zanaflex Capsules and Zanaflex tablets in July 2004. These products contain tizanidine, one of the two leading treatments for the management of spasticity. Zanaflex tablets were approved by the FDA in 1996 and lost compound patent protection in 2002. There are currently 11 generic versions of tizanidine tablets on the market. However, substantial brand loyalty remains in the prescriber community for the Zanaflex brand. Approximately 90% of all prescriptions for tizanidine are written as "Zanaflex," although most are switched automatically at the pharmacy for a generic tizanidine tablet. Zanaflex Capsules were approved by the FDA in 2002, but were never marketed by Elan. We began marketing Zanaflex Capsules in April 2005.

Clinical trials conducted by Elan demonstrated that Zanaflex Capsules, when taken with food, produce average peak levels of tizanidine in a person's blood that are lower and rise more gradually compared to the peak levels following a similar dose of the tablet form. The FDA recognizes these differences and has determined that Zanaflex tablets and generic tizanidine tablets are not

therapeutically equivalent and are not AB-rated to Zanaflex Capsules. As a result, under state pharmacy laws, prescriptions written for Zanaflex Capsules may not be filled by the pharmacist with Zanaflex tablets or generic tizanidine tablets, although some substitution does take place in practice. Zanaflex Capsules are available in 2 mg, 4 mg and 6 mg doses, while tablet formulations are only available in 2 mg and 4 mg doses. The 6 mg capsule gives patients and physicians an additional dosing choice and an opportunity to reduce the number of pills a patient must take daily. In addition, many patients may find capsules easier to swallow than tablets. In addition, people who have difficulty swallowing may open the capsule and sprinkle it on food. The pharmacokinetic effect of sprinkling contents of the capsule on food, however, is different from when the intact capsule is taken with food.

In 2004, retail sales of Zanaflex tablets and generic equivalents of Zanaflex tablets totaled approximately \$300 million in the United States, with Zanaflex tablets accounting for about \$15 million of that amount. The vast majority of prescriptions for these products are written by a relatively small group of prescribers. In 2004, over 117,000 physicians wrote one or more prescriptions for generic tizanidine or Zanaflex tablets. However, 78% of all such prescriptions were generated by approximately 9,200 prescribers. We believe that our internal specialty sales force, contract sales force and contract telesales group, will be able to reach virtually all of these high-volume prescribers.

Sales and promotional support for Zanaflex Capsules

To support our commercialization of Zanaflex Capsules, we have established a sales and marketing infrastructure consisting of an internal specialty sales force, a contract sales force and a pharmaceutical telesales group. Our internal specialty sales force currently consists of 14 sales professionals who call on neurologists and other prescribers specializing in treating patients with conditions that involve spasticity. Members of our internal sales force also call on managed care organizations, pharmacists and distribution customers. We plan to expand our specialty sales force to approximately 30 sales professionals in the first quarter of 2006. In addition, Cardinal Health provides us with a contract sales force of approximately 160 sales representatives to market Zanaflex Capsules to primary care physicians who currently prescribe Zanaflex tablets or generic tizanidine tablets. We use a pharmaceutical telesales group to contact primary care physicians, specialty physicians and pharmacists to provide information regarding Zanaflex Capsules or determine their interest in receiving samples of Zanaflex Capsules or a visit from a sales representative.

After the introduction of generic tizanidine tablets in June 2002, Elan discontinued promotional and educational support for Zanaflex tablets. To our knowledge, none of the distributors of generic tizanidine or baclofen, the other leading spasticity treatment, which is also generic, has engaged in any educational programs on the treatment of spasticity. Concurrent with our launch of Zanaflex Capsules in April 2005, we initiated a sampling program as well as a number of educational, promotional and drug safety monitoring programs for prescribers and patients. In addition to our programs for prescribers and patients, we also have a number of programs in place to educate pharmacists about Zanaflex Capsules and the pharmacokinetic differences between tizanidine tablets, including generic tizanidine tablets and Zanaflex tablets, and Zanaflex Capsules.

Since April 2005, we have seen continued growth in monthly prescriptions of Zanaflex Capsules. We believe that this trend will continue as we extend our reach into the population of high-volume prescribers of tizanidine. We are seeking FDA approval of improvements in labeling and we will also explore the potential for new indications.

Pharmacokinetic differences between Zanaflex Capsules and tizanidine tablets

Although tizanidine, the active ingredient in Zanaflex Capsules, Zanaflex tablets and generic tizanidine tablets, is the same, there are some important differences between the capsule and tablet formulations. To establish the differences between Zanaflex Capsules and Zanaflex tablets, Elan conducted a single dose clinical trial with 96 healthy volunteers. That trial demonstrated that Zanaflex Capsules, when taken with food, resulted, on average, in a more gradual rise in tizanidine levels in the blood and a lower peak concentration. By contrast, the trial demonstrated that Zanaflex Capsules taken without food resulted in essentially the same pharmacokinetic effect as the tablet formulation of tizanidine. The results of the trial are illustrated in Figure 1 below.

Figure 1. Average Blood Concentration Over Time

Average blood concentrations of tizanidine in subjects following a single dose of 4 mg Zanaflex tablet or a 4 mg dose of Zanaflex Capsules, taken either with or without food.

As a result of this difference in absorption rate and blood level when taken with food, the FDA has determined that neither Zanaflex tablets nor generic tizanidine tablets are therapeutically equivalent or AB-rated, to Zanaflex Capsules. Therefore, under state pharmacy laws, pharmacists cannot fill prescriptions written for Zanaflex Capsules with Zanaflex tablets or generic tizanidine tablets. The FDA-approved package insert for Zanaflex Capsules contains the following language regarding the differences between the products: "Food has complex effects on tizanidine pharmacokinetics, which differ with different formulations. These pharmacokinetic differences may result in clinically significant differences when (1) switching administration of the tablet between the fed or fasted state, (2) switching administration of the capsule between the fed or fasted state, (3) switching between the tablet and capsule in the fed state, or (4) switching between the intact capsule and sprinkling the contents of the capsule on applesauce. These changes may result in increased adverse events or delayed/more rapid onset of activity, depending on the nature of the switch. For this reason, the prescriber should be thoroughly familiar with the changes in kinetics associated with these different conditions."

The most frequent adverse events associated with the use of tizanidine include dry mouth, drowsiness, fatigue and dizziness. These events are generally mild to moderate and are believed to be dose-related. In one single-dose study where patients were not titrated, two-thirds of patients experienced hypotension. Zanaflex Capsules have a short-acting effect, and patients are advised to take it at the times during the day when they most need relief from spasticity.

Fampridine-SR

Fampridine-SR, our lead product candidate, is currently in a Phase 3 clinical trial for the improvement of walking ability in people with MS pursuant to an SPA issued by the FDA. The FDA has agreed that this trial, if successful, could qualify as one of the pivotal efficacy studies required for drug approval. Fampridine-SR is a small molecule drug contained in a sustained-release tablet form. Laboratory studies have shown that fampridine, the active ingredient in Fampridine-SR, improves impulse conduction in nerve fibers in which the myelin sheath has been damaged. Fampridine is not currently FDA-approved for use in MS or any other indications. We believe that Fampridine-SR could represent a fundamental shift in the treatment of people with MS because it may improve neurological function rather than treating the symptoms or slowing the progression of disease, as current treatments do. We have obtained Orphan Drug designations from the FDA for Fampridine-SR in both MS and incomplete SCI.

In MS, the myelin sheath is damaged by the body's own immune system, causing areas of myelin sheath loss, also known as demyelination. When a nerve fiber is demyelinated after injury, large numbers of the specialized potassium channels on the surface of the axon that are normally hidden or covered by the myelin sheath are exposed and leak potassium ions, causing the nerve fiber to short circuit its electrical impulses. Fampridine blocks these exposed channels, thereby permitting the nerve fiber to transmit impulses again, even in a demyelinated state. Fampridine may also serve to amplify electrical signals at sites of contact or synapses between nerve cells by blocking the same channels in the tips of the nerve fiber, thereby improving the function of surviving tissue in the injured nervous system. Fampridine-SR is a sustained release formulation of fampridine that we believe enables safer and more effective blood levels to be maintained throughout the day, which cannot be easily accomplished with an immediate-release formulation.

We have a worldwide, exclusive license from Elan for all of its rights to, among other things, develop, promote, distribute, use and sell Fampridine-SR in all human clinical indications, and to develop, promote, distribute, use and sell other patented sustained-release formulations of the drug. Elan also manufactures Fampridine-SR for us.

We believe there are compelling reasons to develop Fampridine-SR as a new therapy for improving walking ability in people with MS:

According to a patient registry maintained by the North American Research Committee on Multiple Sclerosis, approximately 80% of people with MS experience some degree of walking impairment, which is one of the most limiting aspects of the disease.

Our Phase 2 clinical trials of Fampridine-SR in MS patients have shown improvement in walking ability and leg strength.

There are no current therapies that improve walking ability or leg strength in people with MS.

Clinical Trials of Fampridine-SR

We have conducted a series of clinical trials to establish the safety, pharmacokinetics and optimal dosing of Fampridine-SR in MS and SCI, as well as to assess its efficacy. More than 800 people have been treated with Fampridine-SR in over 25 clinical trials, including nine clinical trials in MS and 11 clinical trials in SCI.

Clinical Trials in Multiple Sclerosis

Current Phase 3 Trial. Our current Phase 3 clinical trial, MS-F203, was initiated in June 2005, after we reached agreement with the FDA on the protocol design and received a Special Protocol Assessment from the FDA Division of Neuropharmacological Drug Products. The FDA has agreed that this trial, if successful, could qualify as one of the pivotal efficacy studies required for drug approval.

MS-F203 is a double-blind clinical trial designed to enroll 240 people at up to 35 MS centers in the United States and Canada. Subjects will complete a Timed 25-Foot Walking Test at each visit during the clinical trial. This test involves timing the subject's completion of a 25-foot walk as fast as he or she can do so safely. Such a test is relevant as a measure of the subject's ability to perform tasks that are required in daily life, such as crossing the street in the time period allotted by a traffic light. In addition, subjects will also be asked to fill out a 12-item questionnaire known as the MS Walking Scale or MSWS-12. The MSWS-12 is a subjective measure of the degree to which walking disability impacts the subject's daily life.

Trial results will be analyzed using our proprietary responder analysis, for which we have applied for a patent. A subject will be deemed to be a responder if his or her score on the 25-foot walk was better during the majority of his or her visits in the treatment phase of the trial, than the best visit during the non-treatment phase. The primary endpoint of the trial will be the comparison of the percentage of responders in the Fampridine-SR group to the percentage of responders in the placebo group. To validate the clinical importance of improvements in the timed walk measurements, the MSWS-12 scores of the responders will be compared against those of non-responders. This analysis is designed to ensure that being deemed a responder is clinically meaningful to the subject. In addition, the trial will also test for significant improvement in walking ability in the Fampridine-SR-treated responder group at the last treatment visit versus the placebo group. This analysis is designed to ensure that the improvements seen by responders are maintained over the duration of the trial. As a secondary endpoint, the trial will also measure lower extremity muscle strength, as assessed by the modified British Medical Research Council manual muscle testing procedures, referred to as the Lower Extremity Manual Muscle Test or LEMMT.

The design of our Phase 3 clinical trial was closely modeled on the design of the preceding Phase 2 clinical trial, MS-F202, and builds on our clinical trial experience in measuring improvements in neurological function against the variability in function that is inherent in people with MS. Individuals who suffer from MS vary in the severity of the impairments they experience on a day-to-day basis, depending on the activity of the disease on a given day. As a result, from one clinical trial visit to the next, a subject's walking ability can vary significantly. This variability makes it difficult to distinguish treatment-related changes in walking ability from disease-related changes in walking ability. Our review of MS-F202 data demonstrated that a responder form of analysis helps overcome the effect of the inherent variability of disease activity that people with MS experience.

We expect the recruitment period for the current trial, which began in June 2005, to require approximately six to eight months. The treatment period is 14 weeks and each subject is involved in trial procedures for approximately five months overall. We currently expect to be able to evaluate data from this clinical trial in the third quarter of 2006, if patient recruitment proceeds as planned.

Phase 2 Clinical Trials. Our most recently completed Phase 2 clinical trial, MS-F202, was designed to compare 10 mg, 15 mg and 20 mg doses of Fampridine-SR taken twice per day and to assess their relative safety and efficacy over a stable treatment period of 12 weeks. The pre-specified primary endpoint of the clinical trial was an improvement in average walking speed using the Timed 25-Foot Walk. The clinical trial was initiated in early 2003 and completed enrollment of 211 subjects in 24 major MS centers in August 2003. The clinical trial was designed to give us a clear indication of optimal dose and the number of subjects that we would need to establish efficacy in a subsequent Phase 3 trial. The overall design of our MS-F202 Phase 2 clinical trial is illustrated in Figure 2 below.

Figure 2. Design of Fampridine-SR MS-F202 Phase 2 clinical trial.

The efficacy results, based on the prospective analysis plan of MS-F202, indicated a trend for improvement from baseline in walking ability (using the Timed 25-Foot Walk test) in the Fampridine-SR-treated subjects, relative to the placebo-treated subjects. Statistical significance was not reached on the primary efficacy analysis, which was defined as the percentage change from baseline in average walking speed during the 12 weeks of stable double-blind treatment. Statistical significance was obtained for the secondary outcome measure of lower extremity muscle strength, as assessed by LEMMT. All three Fampridine-SR dose groups showed greater mean increases from baseline in LEMMT scores relative to the placebo group and the differences were statistically significant for the 10 mg and 15 mg Fampridine-SR groups ($p < 0.05$). A p-value is a statistical term that indicates the probability that a difference between treatment groups is random. The smaller the p-value, the lower the likelihood that the difference was random. Generally a p-value of less than 0.05 is considered to represent a statistically significant difference.

Our analysis of the data led us to believe that part of the reason that statistical significance was not achieved on the primary endpoint was related to the disease-related variability of walking ability for a subject from visit to visit, together with the fact that not all subjects are expected to respond to the treatment. We believe this variability in walking ability, much of which is contributed by subjects who do not respond, made it difficult to establish the significance of treatment-related improvements using the average walking speed measure that had been prospectively defined as the endpoint of the trial. In order to try to reduce the effect of this variability, we developed an analysis designed to classify subjects as responders only if they demonstrated consistent improvement during the treatment period, when subjects were taking either Fampridine-SR or placebo. Subjects were deemed to be responders if their Timed 25-Foot Walk test results were better during at least three of the four treatment visits than their best score during the non-treatment period. When examined using this form of analysis, all three of the groups receiving Fampridine-SR had a statistically significant increase in the number of responders compared to placebo, as shown in Figure 3.

Figure 3. Responder rates for treatment groups in MS-F202.

Since the differences in responder rates among the three doses examined were small, more detailed analyses were performed comparing the pooled Fampridine-SR-treated groups against the placebo-treated group. The difference in responder rate between the pooled Fampridine-SR-treated subjects and the placebo-treated subjects was statistically significant (p-value<0.001), as shown below.

Status	Placebo (N=47)	Fampridine-SR Pooled (N=158)
Responders	8.5%	36.7%
Non-responders	91.5%	63.3%

The responder analysis allows characteristics of the response to be appreciated in more detail. The improvement in walking in responders appeared to be substantial and sustained. The average increase in walking speed of responders was more than 25%, as compared to approximately 2% for non-responders. This was consistent over the 3-month period of treatment and was statistically significant at every visit, as shown in Figure 4.

Figure 4. The average percent change from baseline in walking speed.

The graph depicts the average change in walking speed during the treatment period for study MS-F202, comparing Fampridine-SR-treated responders to the placebo-treated group. Differences between the groups were statistically significant (p<0.001) at all visits.

In MS-F202, subjects were required to fill out the MSWS-12 questionnaire. When the results of this questionnaire were analyzed for all evaluable subjects, the average improvement, or reduction in score, during the treatment period was greater for responders than for non-responders, in each case including those subjects on placebo, and the difference was statistically significant. We believe this result demonstrates that being a timed-walk responder is clinically meaningful to patients. These results are shown in Figure 5.

Figure 5. Average change in MS Walking Scale Score.

Histogram to show the average change in score for the MS Walking Scale for responders and non-responders between the baseline and stable treatment periods. A reduction in score represents a subject's perception that there has been improvement in the effect of walking disability on activities of daily life.

This analysis of the MS-F202 clinical trial served as the basis for the design of the Phase 3 MS-F203 clinical trial. The results of MS-F202 using this analysis showed that there was a statistically significant increase in the number of people being treated who experienced a consistent increase in walking ability, compared to placebo, and that this improvement was sustained and clinically meaningful to patients. These data also show that the benefit was maintained for the full 14 weeks of treatment. These results are similar whether the pooled Fampridine-SR-treated subjects or just those subjects receiving the current target dose of 10 mg twice a day are compared with the placebo-treated group.

In 2001, we completed a smaller double-blind Phase 2 clinical trial of Fampridine-SR, MS-F201. This clinical trial was designed to determine the optimal dose range of Fampridine-SR and to evaluate possible ways in which to measure the effect of the drug on symptoms of the disease, including motor strength, timed walking and self-reported fatigue. The clinical trial involved a total of 36 MS subjects in four major academic MS research centers. A total of 25 subjects received Fampridine-SR in doses increasing from 10 mg to 40 mg twice per day during seven weeks of treatment and 11 subjects were given placebo during the same period. This treatment period was preceded by a series of baseline evaluations during the course of four weeks to allow the subjects to become adjusted to the clinic visits and allow the various measurements to stabilize. A one-week blinded treatment with placebo tablets preceded the first drug administration to look for potential placebo effects on the various outcome measures.

The clinical trial demonstrated that doses up to 25 mg twice a day were well tolerated and were associated with statistically significant improvements in walking ability and leg muscle strength. All the improvement in strength and walking ability was apparent within these first four weeks of the

treatment, at doses from 10 mg to 25 mg twice a day. The placebo-treated subjects showed some tendency to improve or worsen in walking ability, mostly within 20% of their baseline average. However, the Fampridine-SR-treated group showed a marked tendency for improvement in walking speed, with 9 of 25 subjects improving more than 20% from baseline and two with greater than 50% improvement. These findings were consistent with the results of an earlier, small, crossover study sponsored by Elan, using doses of 17.5 mg twice a day for one week, which was published in the journal *Neurology* in 1997.

We re-examined the data from the MS-F201 clinical trial using an equivalent responder analysis in which we defined a responder as a subject who showed walking ability on the 25-Foot Walk that was faster in a majority of treatment visits than the fastest speed recorded during the non-treatment period. In MS-F201, this meant that four or more of the seven treatment visits had to show faster walking than the visits during the non-treatment period. We found that the responder rates in this trial were 40% (10 of 25) for the Fampridine-SR-treated subjects and 9.1% (1 of 11) for the placebo-treated subjects. Hence, the response rate by this measurement was similar to that seen in the MS-F202 clinical trial. We did not incorporate the MSWS-12 measure in the MS-F201 clinical trial.

Clinical Trials in Spinal Cord Injury

Recent clinical research using imaging and post-mortem studies has shown that the majority of people with SCI do not have severed spinal cords and maintain some nerve fibers that cross the site of injury. However, these surviving nerve fibers are often damaged and lose their myelin sheath. A series of preclinical studies and clinical trials have indicated that fampridine can potentially improve conduction in nerve fibers injured by spinal cord injury and improve function in people with spinal cord injury.

Phase 3 Clinical Trials. In March 2004, we released results from two Phase 3 double-blind clinical trials of Fampridine-SR in people with SCI. The trials did not reach statistical significance in their primary endpoints, which were reduction of spasticity, as measured by the Ashworth scale, and improvement of patients' Subject Global Impression, or SGI. The Ashworth scale is a validated, 5-point clinician assessment of an individual's spasticity. The SGI is a seven-point scale in which trial participants rate how they feel about the overall effect of the trial drug. In one of the SCI trials, the data showed a positive trend ($p=0.069$) toward improvement on the Ashworth scale when analyzed across all observations during the double-blind trial treatment period, which was the trial's pre-specified plan of analysis. When analyzed based on the subjects' last observation carried forward, a commonly used method of analysis, the improvement in, or reduction of, Ashworth score in that trial was statistically significant ($p=0.006$). The drug groups in both trials showed a progressive mean improvement on the Ashworth score during the double-blind treatment period. However, the placebo group in one of the trials showed a more pronounced reduction in Ashworth Score than expected.

The design of these Phase 3 clinical trials was based on a series of earlier Phase 2 clinical trials in which the most consistent finding was a greater reduction in spasticity in Fampridine-SR-treated subjects relative to placebo-treated subjects, as measured by the Ashworth Score. Other benefits observed in the Phase 2 trials were improved motor, bowel, bladder and sexual function. Unlike the design of our Phase 3 clinical trials, our Phase 2 clinical trials did not require a minimum spasticity level for enrollment and the treatment period was from one to four weeks rather than 14 weeks. These changes were made in the Phase 3 trials because the FDA required minimum twelve week duration of treatment for approval of a long-term therapy of this kind and because adequate measurement of benefit required a certain degree of spasticity at baseline.

Based on the entire body of data in clinical trials of fampridine in people with SCI and the new approaches to evaluating response to the drug that we have learned in MS trials, we expect to resume

development of Fampridine-SR for SCI after we have completed further development of the drug for MS.

Safety Profile of Fampridine-SR

To date, Fampridine-SR has been tested in over 800 subjects. The adverse events most commonly experienced in all double blind, placebo-controlled Phase 2 and Phase 3 studies were insomnia, numbness or tingling in the extremities, dizziness and nausea. These events were generally mild to moderate and are believed to have been dose-related. Seizures have also been observed in some prior trials of Fampridine-SR with higher doses of the drug. No seizures have been reported to date in patients with the dose that we have selected for our Phase 3 clinical trial. We are carefully monitoring the potential for seizure as a side effect, including the possibility of interaction with other drugs that are known to lower the threshold for seizure in susceptible subjects. We are also aware that people with MS are reported to have a higher incidence of seizures than the unaffected population. We have excluded from these trials subjects at known risk for seizures because of previous experience or abnormal electroencephalogram indicative of such risk.

As part of our continuing evaluation of safety, we have established extension studies that allow subjects in earlier clinical trials to receive Fampridine-SR on an unblinded, or open-label basis, with their progress followed for at least a year and the potential for continuing treatment until the drug is approved. By their open-label design, these studies will allow us to gain some additional knowledge of the longer term efficacy and safety of the drug, albeit limited by the lack of a placebo control group. These studies are intended primarily to gain sufficient subject experience to satisfy the regulatory guidelines for long-term and overall safety assessments. As of September 2005, approximately 176 subjects from MS-F202 have been enrolled in an extension trial and 37 remain active in the trial, with approximately 42 subjects who have taken the drug for over a year. A new extension study for subjects of the current Phase 3 clinical trial is expected to enroll a majority of the MS-F203 trial subjects, beginning in the fourth quarter of 2005.

Only limited data are yet available from these ongoing safety studies, since no interim analysis of the data is planned, but there have been two incidences of seizures in subjects enrolled in the MS-F202 extension. These seizures occurred in subjects who had been taking the drug at a dose of 15 mg twice a day for six months and five months respectively, before the adverse event. The protocol has now been amended to restrict doses to 10 mg twice a day in order to gather more safety data at the dose that we are examining in the current Phase 3 trial and for which we intend to seek approval. To date, we have had no report of seizure at the 10 mg twice a day dose.

Other Research and Development Programs

Chondroitinase Program

We have developed a program based on the concept of breaking down the matrix of scar tissue that develops as a result of an injury to the CNS. Published research has demonstrated that this scar matrix is partly responsible for limiting the regeneration of nerve fibers in the CNS and restricting their ability to modify existing neural connections, which is the process known as plasticity. This scar matrix may also inhibit repair of the myelin sheath by restricting the movements of the myelinating cells into the area of damage.

Major components of the scar matrix, known as proteoglycans, consist of a combination of protein and sugar molecules. Chondroitin sulfate proteoglycans, or CSPGs, are the specific types of proteoglycans found in the scar matrix. Cell culture studies and a number of animal studies have shown that these CSPGs inhibit the growth of nerve fibers and are likely to be key factors in the failure of the spinal cord or brain to regenerate and repair. Studies also have shown that bacterial enzymes produced

by the body called chondroitinases break down the CSPG molecules, thereby reducing their inhibitory activity.

Four independent laboratories have published animal studies showing that application of chondroitinase results in recovery of function following injuries to various areas of the brain or spinal cord. These functions have included walking, forelimb grasping, sensation, and visual and bladder function. We have produced a recombinant version of naturally-occurring Chondroitinase ABC-I and successfully tested its ability to improve function in an animal model of spinal cord injury. These studies were recently published in the Journal of Neurotrauma. In these studies, rats that sustained a spinal cord injury were treated with either chondroitinase or an ineffective enzyme control and evaluated over 10 weeks of recovery. Animals treated with chondroitinase showed significant improvements both in motor function of the limbs and in bladder function, compared to those treated with the control enzyme.

We are conducting a research program, which has been funded in part by federal and state grants, to develop second generation approaches to overcoming the proteoglycan matrix. These include novel enzyme molecules and alternative approaches to blocking matrix formation. We are now exploring research grants from the NIH and potential partnerships with other companies for completing our preclinical program in chondroitinase. In 2003, we obtained an exclusive worldwide license to certain patents and technology from Cambridge University Technical Services Limited and King's College London related to our chondroitinase program. We are also building our intellectual property position with respect to this technology with patent applications around uses of the known compound and new chemical structures.

Remyelination Programs

Our remyelination programs include two distinct therapeutic approaches to stimulate repair of the damaged myelin sheath in MS, Glial Growth Factor 2, or GGF-2, and remyelinating antibodies. These two approaches address remyelination by different and potentially complementary routes. Both programs require finalizing production of clinical-grade material and completion of preclinical toxicology tests before moving into clinical development. We believe a therapy that could permanently repair myelin sheaths has the potential to restore substantial neurological function to those affected by demyelinating conditions.

Neuregulins/GGF-2

GGF-2 is a member of the neuregulin family of growth factors related to epidermal growth factor. The neuregulins bind to erbB receptors, which translate the growth factor signal to the cell and cause changes in cell growth, protein production and gene expression. The molecule was shown in published studies to stimulate remyelination in animal models of MS and to have a range of other effects in neural protection and repair. In 2002, we obtained from CeNeS an exclusive worldwide license to its neuregulin patents and related technology, including GGF-2. We initially plan to develop GGF-2 for the treatment of MS.

Neuregulins covered in the portfolio from CeNeS have additional potential applications in treatment of heart disease and cancer. Neuregulins and their erbB receptors are essential for cardiac development and have been shown to protect cardiac muscle cells from stressors that model congestive heart failure and myocardial infarction. Additionally, GGF-2 has been shown to protect the heart and brain from the toxicity of commonly used chemotherapeutic agents, such as cisplatin. The neuregulins may also have the potential, when coupled with toxins, to target erbB receptor positive tumors such as those found in certain types of breast cancers.

Remyelinating Antibodies Program

Our remyelinating antibodies program is based on more than 15 years of research performed at Mayo Clinic. Under a license agreement entered into with Mayo Clinic in September 2000, we have exclusive worldwide rights to patents and other intellectual property for these antibodies related to use and treatment of CNS disorders. Studies have demonstrated the ability of this family of antibodies to stimulate repair of the myelin sheath in three different animal models of MS. In particular, these antibodies were found to react with molecules on the surface of the cells that make the myelin sheath and stimulate them in a number of ways, leading to increased remyelination activity. First identified in mice, similar antibodies were subsequently identified in human blood samples by the Mayo team and we have been able to produce a recombinant human antibody that may be suitable for clinical development.

We have also supported preclinical studies at Mayo Clinic to learn more about the ways the antibodies act to stimulate the myelin sheath-forming cells. In 2004, Mayo Clinic received a \$2 million grant to develop and manufacture clinical-grade material and progress the program towards clinical development.

Sales and Marketing

We have established three sales channels for marketing Zanaflex Capsules: an internal specialty sales force, a contract sales force and a telemarketing group.

Internal Specialty Sales Force. We currently employ a team of 14 highly experienced sales professionals to call on neurologists and other prescribers who specialize in treating people with conditions that involve spasticity. Members of this sales force also call on managed care organizations, pharmacists and wholesale drug distribution customers. Our sales professionals have had an average of 15 years of sales experience prior to joining us. We plan to expand our specialty sales force to approximately 30 sales professionals in the first quarter of 2006.

Contract Sales Force for Primary Care Physicians. Cardinal Health provides approximately 160 sales representatives who market Zanaflex Capsules to primary care physicians who prescribe Zanaflex tablets or generic tizanidine tablets. Cardinal Health's compensation is based upon the achievement of specific sales targets.

Contract Pharmaceutical Telesales Organization. We have retained Access Worldwide Communications to provide a small, dedicated sales force of telesales professionals to contact primary care and specialty physicians to provide information regarding Zanaflex Capsules and determine their interest in receiving samples of Zanaflex Capsules or a visit from one of our sales representatives. To date, over 90% of prescribers contacted have requested samples and over 50% have requested a visit from one of our sales representatives.

We focus our sales and marketing efforts on physicians and other prescribers who treat spasticity in the United States. Approximately 9,200 physicians generated roughly 78% of the prescriptions for Zanaflex and generic tizanidine tablets in the United States in 2004. Most of these physicians are located at major medical centers. We have existing relationships with the majority of these centers through our Fampridine-SR clinical trial process.

We believe that, in general, people with MS and SCI are knowledgeable about their conditions, actively seek new treatments, and directly influence their prescriber's evaluation of treatment options. We have existing relationships with the major advocacy groups that focus on MS and SCI. We provide regular updates regarding our development programs and we sponsor or support several educational initiatives. We have implemented a comprehensive series of educational and promotional programs to support Zanaflex Capsules. These include educational materials, a peer-to-peer speakers' program, samples, medical information and drug safety monitoring services, as well as a patient assistance program. At the request of the FDA, we have also implemented an educational program to inform

pharmacists, prescribers and patients that Zanaflex tablets or generic tizanidine tablets are not therapeutically equivalent to Zanaflex Capsules and that, as a result, a prescription for Zanaflex Capsules should not be substituted with any tablet formulations at the pharmacy.

We believe that the expertise we are developing through commercializing Zanaflex Capsules will provide a strong foundation for our marketing of Fampridine-SR, if approved, as well as for additional potential treatments in CNS conditions. As a result, we plan to market Fampridine-SR ourselves in the United States and possibly in Canada, if it is approved in both countries. We expect that the sales force for Zanaflex Capsules would also promote Fampridine-SR in the United States since both products would have many of the same prescribers. We do not currently intend to build commercial capabilities outside North America but intend to secure those capabilities through one or more partners.

Similar to other pharmaceutical companies, our principal customers are wholesale pharmaceutical distributors. We currently depend on three key customers. For the nine months ended September 30, 2005, Cardinal Health, McKesson Corporation and AmerisourceBergen Corporation accounted for approximately 51.4%, 27.3% and 13.2% of our shipments, respectively.

Scientific and Medical Network

We have an established advisory team and network of well-recognized scientists, clinicians and opinion leaders in the fields of MS and SCI. Depending on their expertise, these advisors provide assistance in trial design, conduct clinical trials, keep us apprised of the latest scientific advances and help us identify and evaluate business development opportunities. A number of the members of this network form our Scientific Advisory Board. The members of our Scientific Advisory Board are highlighted below:

Name	Affiliation
Michael S. Beattie, Ph.D.	Brumbaugh Professor and Chair of the Department of Neuroscience, Ohio State University.
Jacqueline C. Breshnahan, Ph.D.	Professor of Neuroscience, Ohio State University.
Mary B. Bunge, Ph.D.	Professor of Cell Biology and Anatomy, Neurological Surgery and Neurology, University of Miami School of Medicine.
Carl W. Cotman, Ph.D.	Professor of Psychobiology and Neurology, University of California, Irvine.
James W. Fawcett, Ph.D.	Merck Company Professor of Experimental Neurology, Cambridge University, and Chairman of the MRC Cambridge Centre for Brain Repair.
Martin Grumet, Ph.D.	Professor of Cell Biology and Neuroscience, Rutgers University Director, W. M. Keck Center for Collaborative Neuroscience.
Eugene Johnson, Jr., Ph.D.	Norman J. Stupp Professor of Neurology, and Professor of Molecular Biology and Pharmacology at Washington University School of Medicine, St. Louis.
Mark D. Noble, Ph.D.	Professor of Genetics at the Center for Cancer Biology, University of Rochester Medical Center.
Melitta Schachner, Ph.D.	Professor and Director of the Institute for Synthesis of Neural Structures, University of Hamburg, Germany.

Jerry Silver, Ph.D.	Professor of Neurosciences, Case Western Reserve University.
Patrick A. Tresco, Ph.D.	Professor of Bioengineering, Director Keck Center for Bioengineering, University of Utah.
Mark H. Tuszynski, M.D., Ph.D.	Professor of Neurosciences, Director of the Center for Neural Repair, and Attending Neurologist at the University of California, San Diego.
Stephen G. Waxman, M.D., Ph.D.	Chairman of the Department of Neurology, Yale University School of Medicine.
Wise Young, Ph.D., M.D.	Professor II and Director of the W. M. Keck Center for Collaborative Neuroscience, Rutgers University.

In addition, we have recruited over 35 MS centers and 80 SCI rehabilitation centers in the United States and Canada to conduct our clinical trials. Our clinical management team has extensive experience in the areas of MS and SCI and works closely with this network.

Collaborations, Alliances and License Agreements

Elan Corporation plc

Zanaflex

In July 2004, we entered into an Asset Purchase Agreement with Elan pursuant to which we acquired all of Elan's research, development, distribution, sales and marketing rights to Zanaflex Capsules and Zanaflex tablets in the United States. The assets acquired include the products' FDA registrations and FDA dossiers, proprietary product know-how, a patent and two related patent applications, certain inventory of Zanaflex tablets and certain product books and records. Elan has granted us a license that allows us to use the Zanaflex trademarks in the United States and has given us the right to buy the Zanaflex trademark for a nominal sum once specified milestone and royalty payments have been made. Elan also granted us an exclusive, perpetual and royalty-free license to certain intellectual property relating to technology contained in Zanaflex Capsules and Zanaflex tablets or used in the manufacture of Zanaflex Capsules, for use in connection with the sale and marketing of Zanaflex Capsules and Zanaflex tablets in the United States. We also acquired the right to develop new indications, formulations, dosage forms, delivery systems and process improvements of Zanaflex. Under the agreement, Elan agreed not to directly or indirectly market, distribute or sell any products containing tizanidine as an active pharmaceutical ingredient in the United States until the later of the end of our obligation to pay royalties to Elan or valid termination of our supply agreement with Elan. In addition, we agreed not to directly or indirectly market, distribute or sell any products containing tizanidine as its active pharmaceutical ingredient in the United Kingdom or Ireland until July 2007.

Our agreement with Elan obligates us to pay a combination of sales-based milestone payments of up to \$19.5 million and royalties on future sales of Zanaflex Capsules and Zanaflex tablets. We have made or accrued an aggregate of \$3.5 million in payments under this agreement through September 30, 2005. Our obligation to pay royalties to Elan for Zanaflex tablets and Zanaflex Capsules ends on the later of July 2014 or when the last patent included in the acquisition expires. We also agreed to use commercially reasonable efforts to commercialize Zanaflex Capsules.

As part of the acquisition, we assumed certain of Elan's rights and obligations relating to Zanaflex under a license agreement with Novartis, to the extent that these rights and obligations arise subsequent to our acquisition of Zanaflex. Under this agreement we obtained certain rights to market and sell tizanidine products and rights to product improvements developed by Novartis. We are obligated to pay Novartis royalties based on net sales of Zanaflex Capsules and Zanaflex tablets until

the agreement expires in February 2007, after which time we will have a fully paid-up license from Novartis to these rights.

Elan and Novartis manufacture Zanaflex Capsules and tablets for us, respectively. See " Manufacturing." In December 2005, we entered into a financing arrangement with PRF pursuant to which we assigned PRF the right to receive a portion of our net revenues from Zanaflex Capsules, Zanaflex tablets and any future Zanaflex products. The arrangement covers all Zanaflex net revenues generated from October 1, 2005 through and including December 31, 2015, unless the arrangement is terminated earlier. See "Business Liquidity and Capital Resources Financing Activities."

Fampridine-SR

In January 1997, we licensed from Elan exclusive worldwide rights to Elan's sustained release formulation of fampridine, Fampridine-SR, for the treatment of SCI. In April 1998, we formed MS Research & Development Corporation, or MSRD, with Elan's subsidiary, Elan International Services, Ltd., or EIS, to develop Fampridine-SR for treatment of MS. At that time, MSRD licensed from Elan exclusive worldwide rights to Fampridine-SR for the treatment of MS.

In September 2003, we entered into a termination and assignment agreement with Elan, EIS and MSRD pursuant to which MSRD assigned to us its assets, including the license from Elan for Fampridine-SR for MS. We paid MSRD approximately \$11.5 million for all the assets and assumed liabilities of MSRD. MSRD distributed the purchase price to its shareholders according to their equity ownership interest. We received a distribution of approximately \$9.5 million as a result of this distribution. We also purchased EIS's shares at par value, and own approximately 88% of MSRD, which now has no assets or liabilities and is inactive.

In September 2003, we entered into an amended and restated license with Elan, which replaced the two prior licenses for Fampridine-SR in oral sustained release dosage form. Under this agreement, Elan granted us exclusive worldwide rights to Fampridine-SR for all indications, including SCI, MS and all other indications. We agreed to pay Elan milestone payments of up to \$15.0 million and royalties based on net sales of the product, if approved. We have not made any payments under this agreement through September 30, 2005.

Elan is responsible for completing the chemistry, manufacturing and controls section of our NDA for Fampridine-SR and equivalent regulatory applications outside the United States. Elan is also supplying us with product for our clinical trials under this agreement.

Elan may terminate our license in countries in which we have a license, including the United States, if we fail to file regulatory approvals within a commercially reasonable time after completion and receipt of positive data from all preclinical and clinical studies required for the related NDA or any NDA equivalent. We could also lose our rights under the license agreement if we fail to launch a product in such countries within 180 days of NDA or equivalent approval or if we fail to fulfill our payment obligations under the license agreement. If Elan terminates our license in any applicable country, Elan is entitled to license from us our patent rights and know-how relating to the product and to market the product in the applicable country, subject to royalty payments to us.

We have the right to terminate the Elan license at any time by written notice. In addition, the Elan license may be immediately terminated by either party following an incurable breach of any term or provision by the other party. The Elan license may also be terminated by either party following notice and a cure period with respect to an uncured breach by either party.

Subject to the early termination provisions, the Elan license terminates on a country by country basis on the last to occur of fifteen years from the date of the agreement, the expiration of the last to expire Elan patent or the existence of competition in that country.

Cardinal Health PTS, LLC

In August 2005, we entered into a sales force agreement with Cardinal Health. Under this agreement, approximately 160 of Cardinal Health's sales representatives market Zanaflex Capsules to approximately 4,000 high prescribing primary care physicians identified by us throughout the United States. Although these sales representatives do not exclusively represent Acorda, our agreement with Cardinal Health provides that they will not market any other products during their sales calls related to Zanaflex Capsules. We are responsible for providing training to the Cardinal Health sales representatives regarding the medical and technical aspects of Zanaflex Capsules and on our specific sales strategies and policies. We also provide all samples and promotional materials for use by these sales representatives. Cardinal Health is responsible for general supervision and management of the sales force, including ensuring legal and regulatory compliance, including maintaining procedures relating to the handling of drugs by their sales representatives in compliance with applicable laws and prudent management practices.

We have agreed to pay Cardinal Health service fees based on the achievement of targeted sales levels and to reimburse Cardinal Health for certain costs. The agreement has a term of two years and cannot be terminated without cause prior to December 31, 2005.

Rush-Presbyterian St. Luke's Medical Center

In 1990, Elan licensed from Rush-Presbyterian St. Luke's Medical Center, or Rush, know-how relating to fampridine for the treatment of MS. We subsequently licensed this know-how from Elan. In September 2003, we entered into an agreement with Rush and Elan terminating the Rush license to Elan and providing for mutual releases. We also entered into a license agreement with Rush in which Rush granted us an exclusive worldwide license to its know-how relating to fampridine for the treatment of MS. Rush has also assigned to us its Orphan Drug Designation for fampridine for the relief of symptoms of MS.

We agreed to pay Rush a license fee, milestone payments of up to \$1.15 million and royalties based on net sales of the product for neurological indications. We have made an aggregate of \$200,000 in payments under this agreement through September 30, 2005.

The Rush license may be terminated by either party following an uncured material breach by the other party and notice. The Rush license may also be terminated upon the filing or institution of bankruptcy, reorganization, liquidation or receivership proceedings, or upon an assignment of a substantial portion of the assets for the benefit of creditors by the other party. We also entered into an agreement with Elan relating to the allocation of payments between us and Elan of certain payments to Rush under the Rush license. Subject to the early termination provisions, the Rush license terminates upon expiration of the royalty obligations, which expire fifteen years from the date of the agreement.

Canadian Spinal Research Organization

In August 2003, we entered into an Amended and Restated License Agreement with the Canadian Spinal Research Organization, CSRO. Under this agreement we were granted an exclusive and worldwide license under certain patent assets and know-how of CSRO relating to the use of fampridine in the reduction of chronic pain and spasticity in a spinal cord injured subject.

We are required to pay to CSRO royalties based on a percentage of net sales of any product incorporating the licensed rights, including royalties on the sale of Fampridine-SR for any indication.

We have the right to terminate the CSRO agreement at any time by written notice. In addition, the CSRO agreement may be terminated by either party following an uncured material breach by the other party. The CSRO agreement may also be terminated by either party upon the filing or institution of bankruptcy, reorganization, liquidation or receivership proceedings, or upon an assignment of assets, by the other party. Subject to the early termination provisions, the CSRO agreement will expire upon the termination of all royalty or other payment obligations on a country-by-country basis, which will be

no longer than the earlier of the expiration of the last to expire licensed patent in such country or ten years from the date of the first commercial sale of the product in such country.

Cornell Research Foundation, Inc.

In February 2003, we entered into a license agreement with Cornell Research Foundation, Inc., pursuant to which we were granted an exclusive license under a patent for the use of fampridine in the treatment of anterior horn cell diseases. In consideration for the license, we paid Cornell an upfront license fee and are required to make payments of up to \$150,000 to Cornell upon the achievement of certain milestones relating to the successful reissuance or reexamination of the patents licensed to us and, the completion of a clinical trial testing the use of Fampridine-SR in amyotrophic lateral sclerosis. We have made an aggregate of \$50,000 in payments under this agreement through September 30, 2005. We are also obligated to pay Cornell an annual royalty on net sales of Fampridine-SR in any and all indications, subject to a minimum annual royalty requirement of \$25,000.

Under the Cornell agreement, Cornell is responsible for all patent prosecution and maintenance activities relating to the licensed patent, and we are responsible for paying all fees incurred by Cornell in connection therewith. We have the right under this agreement to enforce any patent rights within the licensed patents against infringement by third parties at our own expense.

We have the right to terminate the Cornell Agreement at any time by written notice. In addition, the Cornell agreement may be terminated by either party following an uncured material breach by the other party. Subject to the early termination provisions, the term of the Cornell agreement will continue until the expiration of the last to expire valid claim under the licensed patent.

Cambridge University Technical Services Limited and King's College London

In December 2003, we entered into a license agreement with Cambridge University Technical Services Limited and King's College London, pursuant to which we were granted an exclusive worldwide license, including the right to sublicense, under a U.S. patent application and its foreign counterpart to develop and commercialize products related to enzymatic methods, including chondroitinase, of treating CNS disorders. We were also granted a non-exclusive worldwide license, including the right to sublicense, under the same U.S. and foreign patent applications to develop and commercialize products related to small molecule inhibitors for use in treating CNS disorders.

In consideration for these licenses, we paid an upfront license fee and are required to make payments of up to \$2.15 million upon the achievement of certain milestones. We have made an aggregate of \$45,000 in payments under this agreement through September 30, 2005. We are also obligated to pay royalties on net sales and on any sublicense royalties that we receive.

The King's College license may be terminated by any party following an uncured material breach by any other party. The King's College license may also be terminated by any party if any other party ceases to carry on business, is declared by a court of competent jurisdiction to be bankrupt or upon the appointment of a liquidator of that party. Subject to the early termination provisions, the King's College license agreement will continue until the expiration of the last to expire valid claim under the licensed patent applications, at which time the licenses granted under the license agreement will automatically become non-exclusive, worldwide, fully paid-up and irrevocable.

Mayo Foundation for Medical Education and Research

In September 2000, we entered into a license agreement with Mayo Foundation for Education and Research, or Mayo Clinic, pursuant to which we were granted an exclusive worldwide license to its patents and other intellectual property on remyelinating antibodies. Under this agreement, we have the right to develop, make, use and sell the remyelinating antibody products for the prevention, mitigation and treatment of CNS disorders. We have worked closely with one of Mayo Clinic's research groups on developing and patenting this emerging technology in connection with the therapeutic use of these

antibodies, specifically myelination and remyelination in MS and SCI. Mayo Clinic has the right to continue researching the antibodies and, in the event it develops other applications related to the licensed patent, which are outside of the scope of our current license, but are for the treatment of CNS disorders. Mayo Clinic is required to offer rights in these new applications to us before it offers such rights to a third party.

Under the Mayo Clinic agreement, we are obligated to make milestone payments of up to \$1.875 million. We also pay royalties based on net sales. We have not made any payments under this agreement through September 30, 2005. The Mayo Clinic agreement may be terminated by either party following an uncured material breach by the other party. We may terminate the Mayo Clinic agreement at will upon prior written notice to Mayo. In addition, either party also has the right to terminate upon the insolvency of the other party, the filing of bankruptcy by or against the other party, or the assignment of assets to the benefit of creditors by the other party. Unless otherwise terminated, this license agreement will terminate upon the expiration of the last licensed patent in any such licensed product.

We have also supported preclinical studies at Mayo Clinic to learn more about the ways the antibodies act to stimulate the myelin sheath-forming cells. In 2004, Mayo Clinic received a \$2 million grant to develop and manufacture clinical-grade material and progress the program towards clinical development. A subsequent letter agreement between Mayo Clinic and us acknowledges that the work under this grant is being performed subject to and pursuant to the Mayo Clinic agreement.

CeNeS Pharmaceuticals plc

In November 2002, we entered into two license agreements with CeNeS Pharmaceuticals plc. The first agreement relates to an exclusive worldwide sublicense under certain patents, patent applications and know-how to make, have made, use, import, offer for sale and sell protein products composed of GGF-2 and non-protein products developed through the use of material covered by a valid claim in the patents. The license to these patents and the right to sub-license these patents were granted to CeNeS by the Ludwig Institute for Cancer Research.

Our payment obligations to CeNeS include payment of an upfront license fee, royalties based on annual net sales of the product, if any, as well as payments of up to \$8.5 million upon achieving certain milestones in connection with the development, testing and regulatory approval of any protein products. We have not made any payments under this agreement through September 30, 2005. We are obligated to make minimum royalty payments commencing on the third calendar year following the first commercial sale of any licensed product. If we fail to pay any minimum royalty, CeNeS will have the option to convert our license or any sublicense to a non-exclusive license. This agreement with CeNeS is effective until the later of November 12, 2017 or the expiration of the last-to-expire valid claim in the licensed patents. We may terminate this agreement at will upon prior written notice to CeNeS. In addition, this first agreement may be terminated by either party following an uncured material breach by the other party and if this agreement is terminated under that provision, we may retain the exclusive worldwide sublicense granted to us under this agreement, provided that we continue to pay royalties.

The second agreement relates to an exclusive worldwide sublicense to us under certain patents, patent applications and know-how to make and have made, use and have used, sell, offer for sale, have sold and import protein products composed of one or more proteins encoded by the growth factor gene *nrg-2* and non-protein products developed through the use of material covered by a valid claim of the patents. The license to this patent and the right to sub-license this patent was granted to CeNeS by the President and Fellows of Harvard College ("Harvard").

We have agreed to a timeline to achieve certain milestones relating to the research and development and the clinical testing and filing of regulatory approvals for the products. We are also required to make milestone payments of up to \$5.93 million. If we are unable to meet a milestone, CeNeS has agreed to negotiate in good faith with us to agree for a reasonable extension of the time to

achieve the milestone up to one year. We are obligated to pay CeNeS a license fee and royalties based on a percentage of net sales of protein products and non-protein products covered under the agreement. We have not made any payments under this agreement through September 30, 2005.

This second agreement may be terminated by either party following an unremedied default of a material obligation by the other party. CeNeS may terminate this agreement upon our failure to cure a default in our obligations relating to maintenance of insurance liability or our failure meet certain milestones. Harvard may terminate the underlying Harvard license if CeNeS becomes insolvent, makes an assignment of assets for the benefit of creditors, or has a petition bankruptcy filed for or against it. In that case, Harvard is required, upon our written request, to enter into a direct license with us under the same terms as those set forth in the agreement. We have the right to terminate this agreement upon written notice to CeNeS. The license granted to us pursuant to this agreement continues after the expiration of this agreement and may continue after the termination of this agreement, depending upon the circumstances under which this agreement is terminated.

Subject to early termination provisions, this agreement remains effective until the last patent, patent application or claim included in the licensed patents has expired, been abandoned or been held finally rejected or invalid.

Teva Pharmaceuticals Industries Ltd.

In September 2003, we entered into a collaboration agreement with Teva Pharmaceuticals Industries Ltd. ("Teva") under which we were granted a co-exclusive license with Teva to jointly develop and promote in the United States products containing valroceamide.

We made an initial payment to Teva of \$2 million that was charged as research and development expenses for the year ended December 31, 2003, upon execution of the collaboration agreement, and were obligated to make payments to Teva relating to the development of valroceamide.

We and Teva amicably terminated the collaboration agreement as of June 27, 2005 and in connection with the termination we paid Teva approximately \$3.1 million. We and Teva have no further obligations to each other under the collaboration agreement.

Manufacturing

Zanaflex

We currently rely on Elan, Novartis and other third parties to supply us with Zanaflex Capsules and Zanaflex tablets. Zanaflex Capsules are manufactured using Elan's proprietary SODAS (spheroidal oral drug absorption system) multiparticulate drug delivery technology. We agreed to provide Elan with monthly written 18-month forecasts, and with annual written two-year forecasts, of our supply requirements for Zanaflex Capsules. In each of the five months following the submission of our 18-month forecast we are obligated to purchase the quantity specified in the forecast, even if our actual requirements are greater or less. Elan is not obligated to supply products in excess of our forecast requirements, but will use commercially reasonable efforts to fulfill any such orders. The initial term of the agreement expires in 2009, with two automatic two-year renewal terms. Either party may terminate the agreement by notifying the other party at least 12 months prior to the expiration of the initial term or any renewal term. In addition, either party may terminate the agreement if the other party commits a material breach that remains uncured. If a failure to supply occurs under the agreement, other than a force majeure event, or if we terminate the supply agreement for cause, Elan must use commercially reasonable efforts to assist us in transferring production of Zanaflex Capsules to us or a third-party manufacturer, provided that such third party is not a technological competitor of Elan. If we need to transfer production, Elan has agreed to grant us a royalty-free, fully paid-up license of its manufacturing know-how and other information and rights related to the production of Zanaflex Capsules, including a license to use its SODAS technology for specified purposes. We have the right to sublicense this know-how to a third party manufacturer, provided that this third party is not a

technological competitor of Elan. In the event of termination of the supply agreement due to a force majeure event that continues for more than three months, Elan has agreed to enter into negotiations with us to preserve the continuity of supply of products, including the possibility of transferring manufacturing of Zanaflex Capsules to us or a third party manufacturer. Elan obtains tizanidine, the active ingredient in Zanaflex Capsules, from Novartis.

We currently rely on Novartis for our supply of Zanaflex tablets. Novartis currently produces tizanidine, but has arranged with another party to formulate tablets. We have arranged with another company, Sharp, to bottle and package Zanaflex tablets. Under a supply agreement we assumed from Elan, Novartis is responsible for manufacturing Zanaflex tablets and tizanidine, the API in both Zanaflex Capsules and Zanaflex tablets, for us through February 2007.

Novartis has informed us that it intends to discontinue tizanidine production by the end of 2005. It is our understanding that Novartis is currently in the process of qualifying an alternative tizanidine manufacturer. We have established relationships with the companies that currently formulate, bottle and package the tablets, however, we do not have an agreement with an alternative tizanidine manufacturer. It is the responsibility of each of Novartis and Elan to procure the API required to meet its contractual obligations to supply us with product. We do not anticipate an interruption in API supply. Novartis is currently transferring the methods of manufacturing tizanidine to Rohner, an API manufacturer in Pratteln, Switzerland. We have verified this transfer and plan to audit Rohner's manufacturing site towards the end of the first quarter of 2006, following the commencement of Rohner's manufacture of tizanidine. We have also identified an alternate source for tizanidine in collaboration with Elan. We do not anticipate entering into supply agreement for API with either party. Any cost associated with validating API suppliers would be incurred by Novartis or Elan. The costs of our audit of Rohner or any other supplier are not material and are considered part of our normal course of business.

Fampridine-SR

In September 2003, we entered into an agreement with Elan for the supply of Fampridine-SR. Under that agreement, we are required to purchase at least 75% of our annual requirements of Fampridine-SR from Elan unless Elan is unable or unwilling to meet our requirements. In addition, the agreement also obligates us to make compensatory payments if we do not purchase 100% of our requirements from Elan.

As permitted by our agreement with Elan, we have designated Patheon, Inc. as a qualified second manufacturing source of Fampridine-SR. In connection with that designation, Elan assisted us in transferring manufacturing technology to Patheon. We and Elan have agreed that we may purchase up to 25% of our annual requirements from Patheon without making compensatory payments to Elan. In addition, Patheon may supply us with Fampridine-SR if Elan is unable or unwilling to meet our requirements.

Preclinical Products

We have established the internal capability to manufacture research quantities of antibody and protein product candidates and have contracted for testing and manufacturing development activities for GGF-2 to be performed by an outside contractor.

Intellectual Property

We have in-licensed, or are the assignee of, over 25 U.S. patents, over 60 foreign patents and over 65 patent applications pending in the United States or abroad. There are five major families of patents in our portfolio.

Zanaflex

As part of our purchase from Elan of the Zanaflex assets, we acquired one issued U.S. patent and two pending U.S. patent applications. Our issued patent is generally directed to certain methods of reducing somnolence and reducing peak plasma concentrations in patients receiving tizanidine therapy. This issued patent expires in 2021. Our two pending U.S. patent applications are directed to multiparticulate formulations of tizanidine and certain other methods of using tizanidine. The process of seeking patent protection can be time consuming and we cannot assure you that patents will be issued from these pending applications or that, if patents are issued, they will be of sufficient scope to provide meaningful protection of our products.

In addition, we entered into a Supply Agreement with Elan as part of the acquisition, whereby Zanaflex Capsules are manufactured for us by Elan using Elan's proprietary SODAS technology and proprietary information. This proprietary technology is owned by Elan and, in the event Elan ceases to manufacture Zanaflex Capsules, Elan has agreed to grant us a royalty-free, fully paid-up license of its manufacturing know-how and other information and rights related to the production of Zanaflex Capsules, including a license to use its SODAS technology for specified purposes. We have the right to sublicense this know-how to a third party manufacturer, so long as this third party is not a technological competitor of Elan.

Elan has granted us a license that allows us to use the Zanaflex trademark in the United States and gave us the right to buy the Zanaflex trademark for a nominal sum once specified milestone and royalty payments have been made.

Fampridine-SR

We hold an exclusive, worldwide license from CSRO for a U.S. patent and its foreign counterparts for the use of fampridine in the treatment of spasticity and neuropathic pain in chronic SCI. The U.S. patent expires in 2013.

We hold an exclusive, worldwide license from Elan to three U.S. patents, with corresponding issued patents and pending applications in a number of foreign countries, relating to timed delivery formulations of a family of aminopyridine compounds, including fampridine, which also claim methods of administration and treatment for relevant neurological conditions. One of the three U.S. patents expires in 2011 and the other two U.S. patents expire in 2013.

We hold an exclusive license from Cornell University for an issued patent that relates to the use of aminopyridine compositions, including fampridine, for the treatment of diseases of anterior horn cells, including amyotrophic lateral sclerosis, which is also known as Lou Gehrig's disease. This patent expires in 2016.

We also have a pending U.S. patent application and its foreign equivalent directed to methods of using aminopyridines and a pending U.S. patent directed to aminopyridine formulations.

Chondroitinase

We have a license to a U.S. application and its foreign counterpart from King's College, University of Cambridge directed to treatment of CNS damage. We have recently filed a number of U.S. patent applications and their foreign counterparts directed to chondroitinase enzymes and methods of use and preparation. In particular, we have filed seven U.S. applications, with foreign equivalents to four of them, directed to fusion proteins of chondroitinase, chimeric proteins including chondroitinase, deletion mutants, and certain methods relating to chondroitinase.

Neuregulins

We are the exclusive licensee under a license agreement with CeNeS Pharmaceuticals, plc, of a worldwide portfolio of patents and patent applications related to products of neuregulin genes,

including GGF-2. These patents claim the use of particular neuregulins to treat various pathophysiological conditions, particularly stimulating myelinating cells in order to treat demyelinating conditions of the central and peripheral nervous system. These patents also claim a number of additional potential applications of neuregulins, including stimulation of growth in mammalian muscle cells and treating cardiac failure, peripheral neuropathy and nerve injury.

Remyelinating Antibodies

We are the exclusive licensee of a portfolio of patents and patent applications related to a series of remyelinating antibodies discovered in the laboratory of Dr. Moses Rodriguez at the Mayo Clinic in Rochester, Minnesota for the treatment of CNS disorders. One U.S. patent has been issued and foreign counterparts of this patent have also issued in Australia, Mexico, New Zealand and South Korea, as well as in Europe, where patents have been validated in Germany, Spain, France, Great Britain and Italy. Applications are pending elsewhere, including Canada and Japan.

Competition

The market for developing and marketing pharmaceutical products is highly competitive. We are aware of many biotechnology and pharmaceutical companies that are engaged in development and/or marketing of therapeutics for a broad range of CNS conditions. Many of our competitors have substantially greater financial, research and development, human and other resources than we do. Furthermore, many of these companies have significantly more experience than we do in preclinical testing, human clinical trials, regulatory approval procedures and sales and marketing.

Spasticity

Tizanidine, the active pharmaceutical ingredient in Zanaflex Capsules, Zanaflex tablets and generic tizanidine tablets, is one of the two leading FDA-approved treatments for spasticity, a symptom suffered by both MS and SCI patients. Zanaflex tablets were approved by the FDA in 1996 and lost compound patent protection in 2002. Eleven generic manufacturers of tizanidine are distributing their own tablet formulations. Baclofen, which is also available generically, is the other leading drug for the treatment of spasticity. The mechanism of action and associated effects of baclofen are different from those of tizanidine. Due to the different pharmacokinetic profile of Zanaflex Capsules, Zanaflex tablets and generic tizanidine tablets are not AB-rated with Zanaflex Capsules. To our knowledge there are currently no other treatments for spasticity in clinical development.

MS and SCI

Current disease management approaches to MS are classified either as relapse management or disease course management approaches. For relapse management, the majority of neurologists treat sudden and severe relapses with a four-day course of intravenous high-dose corticosteroids. Many of these corticosteroids are available generically. For disease course management, there are a number of FDA-approved MS therapies that seek to modify the immune system. These treatments attempt to reduce the frequency and severity of exacerbations or slow the accumulation of physical disability for people with certain types of MS, though their precise mechanisms of action are not known. These products include Avonex from Biogen-IDEC, Betaseron from Schering AG, Copaxone from Teva and Rebif from Serono.

Several biotechnology and pharmaceutical companies, as well as academic laboratories, are involved in research and/or product development for various neurological diseases, including MS and SCI. We are aware that Aventis is developing a sodium/potassium channel blocker, HP 184, with a potential indication in SCI, MS and other conditions. We believe that HP 184 is in clinical trials for SCI and any resulting product could compete with Fampridine-SR. Neurorecovery Inc. has publicly disclosed that it has an immediate release form of fampridine for peripheral nervous system conditions in Phase 2 trials and any resulting product might compete with Fampridine-SR. In certain

circumstances, pharmacists are not prohibited from formulating certain drug compounds to fill prescriptions on an individual patient basis. We are aware that at present compounded fampridine is used by some people with MS or SCI. Although we expect this use to decrease substantially if Fampridine-SR is approved, it is possible that some people will continue to use this formulation of fampridine. Several companies are engaged in developing products that include novel immune system approaches and cell transplant approaches to remyelination for the treatment of people with MS. These programs are in early stages of development and may compete with Fampridine-SR or our preclinical candidates in the future.

Our lead product candidate, Fampridine-SR, is the first product to our knowledge that acts to improve neurological function in subjects with MS. We are not aware of other companies in clinical development with products that specifically address walking ability in subjects with MS. As a result of its focus on improving function, we believe that Fampridine-SR may be complementary to both the relapse management and disease course management therapies that are commercially available. Nonetheless, Fampridine-SR will compete for market acceptance with these current treatments because they have been accepted and regularly prescribed to people with MS by physicians.

Government Regulation

FDA Regulation and Product Approval

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the preclinical testing, clinical development, manufacture, distribution and marketing of pharmaceutical products. These agencies and other federal, state and local entities regulate research and development activities and the testing, manufacture, quality control, safety, effectiveness, labeling, storage, distribution, record keeping, approval, advertising, sale, promotion, import and export of our products and product candidates.

In the United States, Zanaflex tablets, Zanaflex Capsules, and some of our product candidates are regulated by the FDA as drugs. Other of our product candidates are potentially regulated both as drugs and as biological products. Drugs are subject to the Federal Food, Drug, and Cosmetic Act, as amended, and the regulations of the FDA, as well as to other federal, state, and local statutes and regulations. Biologics are also regulated under the Public Health Service Act, as amended. Violations of regulatory requirements at any stage may result in various adverse consequences, including FDA's and other health authorities' delay in approving or refusal to approve a product. Violations of regulatory requirements also may result in enforcement actions, including withdrawal of approval, labeling restrictions, seizure of products, fines, injunctions and/or civil or criminal penalties.

The process required by the FDA under these laws before our product candidates may be marketed in the United States generally involves the following:

preclinical laboratory and animal tests;

submission to the FDA of an IND, an application which must become effective before clinical trials may begin;

completion of two adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed pharmaceutical in our intended use(s);

FDA review of whether the facility in which the product is manufactured, processed, packed or held meets standards designed to assure the product's continued quality; and

submission to the FDA of an NDA in the case of a drug, or a Biologics License Application, or BLA, in the case of a biologic, that must be approved containing preclinical and clinical data, proposed labeling and information to demonstrate that the product will be manufactured to appropriate standards of identity, purity and quality.

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The research, development and approval process requires substantial time, effort, and financial resources and we cannot be certain that any approval will be granted on a timely or commercially viable basis, if at all.

Preclinical studies include laboratory evaluation of the product candidate, its chemistry, formulation and stability, as well as animal studies to assess its potential safety and efficacy. We then submit the results of the preclinical studies, together with manufacturing information, analytical data and any available clinical data or literature to the FDA as part of an IND application, which must become effective before we may begin human clinical trials. The IND becomes effective 30 days after the FDA acknowledges that the filing is complete, unless the FDA, within the 30-day time period, raises concerns or questions about the conduct of the preclinical trials or the design of the proposed clinical trials as outlined in the IND. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before clinical trials can begin. Further, an independent Institutional Review Board charged with protecting the welfare of human subjects involved in research at each medical center proposing to conduct the clinical trials must review and approve any clinical trial and study subjects must provide informed consent for their participation in the research.

Human clinical trials are typically conducted in three sequential phases which may overlap:

Phase 1. The drug is initially administered into healthy human subjects or subjects with the target condition and tested for safety, dosage tolerance, absorption, metabolism, distribution and excretion.

Phase 2. The drug is administered to a limited subject population to identify possible adverse effects and safety risks, to determine the efficacy of the product for specific targeted diseases and to determine dosage tolerance and optimal dosage.

Phase 3. When Phase 2 evaluations demonstrate that a dosage range of the drug is effective and has an acceptable safety profile, Phase 3 clinical trials are undertaken to further evaluate dosage and clinical efficacy and to further test for safety in an expanded population at geographically dispersed clinical trial sites.

In the case of product candidates for severe or life-threatening diseases such as MS, the initial human testing is often conducted in affected subjects rather than in healthy volunteers. Since these subjects already have the target condition, these clinical trials may provide initial evidence of efficacy traditionally obtained in Phase 2 clinical trials and thus these clinical trials are frequently referred to as Phase 1b clinical trials.

Before proceeding with a study, sponsors may seek a written agreement from the FDA regarding the design, size, and conduct of a clinical trial. This is known as an SPA. Three types of studies are eligible for SPAs: (1) animal carcinogenicity studies, (2) final product stability studies, and (3) clinical studies for pivotal trials whose data will form the primary basis to establish a product's efficacy. Where the FDA agrees to an SPA, the agreement may not be changed by either the sponsor or the FDA except if the sponsor and the FDA agree to a change, or an appropriately senior FDA official determines that a substantial scientific issue essential to determining the safety or effectiveness of the product was identified after the testing began. SPAs thus help establish up front agreement with the FDA about the adequacy of the design of a clinical trial to support a regulatory approval, but the agreement is not binding if new circumstances arise. In addition, even if an SPA remains in place and the trial meets its endpoints with statistical significance, the FDA could determine that the overall balance of risks and benefits for the product candidate is not adequate to support approval, or only justifies approval for a narrow set of uses or approval with restricted distribution or other burdensome post-approval requirements or limitations. There is thus no guarantee that a study will ultimately be adequate to support an approval even if the study is subject to an SPA.

U.S. law requires that studies conducted to support approval for product marketing be "adequate and well controlled." In general, this means that either a placebo or a product already approved for the

treatment of the disease or condition under study must be used as a reference control. Studies must also be conducted in compliance with good clinical practice, or GCP, requirements.

We cannot be certain that we will successfully complete Phase 1, Phase 2 or Phase 3 testing of our product candidates within any specific time period, if at all. Furthermore, the FDA or the Institutional Review Boards or the sponsor may prevent clinical trials from beginning or may place clinical trials on hold or terminate them at any point in this process if, among other reasons, they conclude that study subjects are being exposed to an unacceptable health risk.

In the U.S., the results of product development, preclinical studies and clinical trials must be submitted to the FDA for review and approval prior to marketing and commercial shipment of the product candidate. If the product is regulated as a drug, a New Drug Application, or NDA, must be submitted and approved before commercial marketing may begin. If the product, such as an antibody, is regulated as a biologic, a Biologic License Application, or BLA, must be submitted and approved before commercial marketing may begin. The NDA or BLA must include a substantial amount of data and other information concerning the safety and effectiveness (and, in the case of a biologic, purity and potency) of the compound from laboratory, animal and clinical testing, as well as data and information on manufacturing, product stability, and proposed product labeling.

Each domestic and foreign manufacturing establishment, including any contract manufacturers we may decide to use, must be listed in the NDA or BLA and must be registered with the FDA. The application will generally not be approved until the FDA conducts a manufacturing inspection, approves the applicable manufacturing process for the drug or biological product, and determines that the facility is in compliance with current good manufacturing practice, or cGMP, requirements. If the manufacturing facilities and processes fail to pass the FDA inspection, we will not receive approval to market these products.

Under the Prescription Drug User Fee Act, as amended, the FDA receives fees for reviewing a BLA or NDA and supplements thereto, as well as annual fees for commercial manufacturing establishments and for approved products. These fees can be significant. The NDA or BLA review fee alone can exceed \$700,000, although certain limited deferrals, waivers and reductions may be available.

Under applicable laws and FDA regulations, each NDA or BLA submitted for FDA approval is usually reviewed for administrative completeness and reviewability within 45 to 60 days following submission of the application. If deemed complete, the FDA will "file" the NDA or BLA, thereby triggering substantive review of the application. The FDA can refuse to file any NDA or BLA that it deems incomplete or not properly reviewable. If the FDA refuses to file an application, the FDA will retain 25% of the user fee as a penalty. The FDA has established performance goals for the review of NDAs and BLAs six months for priority applications and 10 months for regular applications. However, the FDA is not legally required to complete its review within these periods and these performance goals may change over time. Moreover, the outcome of the review, even if generally favorable, typically is not an actual approval but an "action letter" that describes additional work that must be done before the application can be approved. The FDA's review of an application may involve review and recommendations by an independent FDA advisory committee.

The FDA may deny an NDA or BLA if the applicable regulatory criteria are not satisfied or may require additional clinical data. Even if such data is submitted, the FDA may ultimately decide that the NDA or BLA does not satisfy the criteria for approval. If the FDA approves a product, it may limit the approved therapeutic uses for the product as described in the product labeling, require that contraindications, warning statements or precautions be included in the product labeling, require that additional studies be conducted following approval as a condition of the approval, impose restrictions and conditions on product distribution, prescribing or dispensing in the form of a risk management plan, or otherwise limit the scope of any approval or post-approval, or limit labeling. Once issued, the FDA may withdraw product approval if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. In addition, the FDA may require testing and

surveillance programs to monitor the effect of approved products which have been commercialized, and the agency has the power to prevent or limit further marketing of a product based on the results of these post-marketing programs.

Satisfaction of the above FDA requirements or similar requirements of state, local and foreign regulatory agencies typically takes several years or more and the actual time required may vary substantially, based upon the type, complexity and novelty of the pharmaceutical product candidate. Government regulation may delay or prevent marketing of potential products for a considerable period of time or permanently and impose costly procedures upon our activities. We cannot be certain that the FDA or any other regulatory agency will grant approval for any of our product candidates on a timely basis, or on a commercially viable basis, if at all. Success in preclinical or early stage clinical trials does not assure success in later stage clinical trials. Data obtained from preclinical and clinical activities is not always conclusive and may be susceptible to varying interpretations which could delay, limit or prevent regulatory approval. Even if a product candidate receives regulatory approval, the approval may be significantly limited to specific indications. Further, even after regulatory approval is obtained, 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. Delays in obtaining, or failures to obtain regulatory approvals would have a material adverse effect on our business. Marketing our product candidates abroad will require similar regulatory approvals and is subject to similar risks. In addition, we cannot predict what adverse governmental regulations may arise from future U.S. or foreign governmental action.

Any products manufactured or distributed by us pursuant to FDA clearances or approvals are subject to pervasive and continuing regulation by the FDA, including record-keeping requirements, reporting of adverse experiences with the drug, other reporting, advertising and promotion restrictions. The FDA's rules for advertising and promotion require in particular that we not promote our products for unapproved uses, and that our promotion be fairly balanced and adequately substantiated. We must also submit appropriate new and supplemental applications and obtain FDA approval for certain changes to the approved product, product labeling or manufacturing process. Drug manufacturers and their subcontractors 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 current Good Manufacturing Practices, which impose certain procedural and documentation requirements upon us and our third-party manufacturers. We cannot be certain that we or our present or future suppliers will be able to comply with the current Good Manufacturing Practices and other FDA regulatory requirements. The FDA also enforces the requirements of the Prescription Drug Marketing Act, or PDMA, which, among other things, imposes various requirements in connection with the distribution of product samples to physicians.

We and our product candidates are also subject to a variety of state laws and regulations in those states or localities where they are or will be marketed. Any applicable state or local regulations may hinder our ability to market our product candidates in those states or localities.

The FDA's policies may change and additional government regulations may be enacted which could prevent or delay regulatory approval of our potential products. Moreover, increased attention to the containment of health care costs in the United States and in foreign markets could result in new government regulations which could have a material adverse effect on our business. We cannot predict the likelihood, nature or extent of adverse governmental regulation which might arise from future legislative or administrative action, either in the United States or abroad.

Orphan Drugs

Under the Orphan Drug Act, special incentives exist for sponsors to develop products for rare diseases or conditions, which are defined to include those diseases or conditions that affect fewer than 200,000 people in the U.S. Sponsors may request that FDA grant a drug orphan designation prior to

approval. We have received Orphan Drug designation for Fampridine-SR for the treatment of both MS and incomplete SCI.

Products designated as orphan drugs are eligible for special grant funding for research and development, FDA assistance with the review of clinical trial protocols, potential tax credits for research, reduced filing fees for marketing applications, and a special seven-year period of market exclusivity after marketing approval. Orphan drug exclusivity prevents FDA approval of applications by others for the same drug and the designated orphan disease or condition. FDA may approve a subsequent application from another person if FDA determines that the application is for a different drug or different use, or if FDA determines that the subsequent product is clinically superior, or that the holder of the initial orphan drug approval cannot assure the availability of sufficient quantities of the drug to meet the public's need. In addition, even when a drug has orphan exclusivity, the FDA may approve a competing drug for the same orphan use. The FDA may also approve someone else's application for the same drug that has orphan exclusivity, but for a different use, in which case the competing drug could be prescribed by physicians outside its FDA approval for the orphan use, notwithstanding the existence of orphan exclusivity. A grant of an orphan designation is not a guarantee that a product will be approved. If a sponsor receives orphan drug exclusivity upon approval, there can be no assurance that the exclusivity will prevent another person from receiving approval for the same or a similar drug for the same or other uses.

Generic Drugs, AB Ratings and Pharmacy Substitution

Generic drugs are approved through an abbreviated process, which differs in important ways from the process followed for innovative products. Generally an abbreviated new drug application, or ANDA, is filed with the FDA. The ANDA must seek approval of a drug product that has the same active ingredient(s), dosage form, strength, route of administration, and conditions of use (labeling) as a so-called "reference listed drug" approved under an NDA with full supporting data to establish safety and effectiveness. Only limited exceptions exist to this ANDA sameness requirement, including certain limited variations approved by the FDA through a special suitability petition process. The ANDA also generally contains clinical data to demonstrate that the product covered by the ANDA is absorbed in the body at the same rate and to the same extent as the reference listed drug. This is known as bioequivalence. In addition, the ANDA must contain information regarding the manufacturing processes and facilities that will be used to ensure product quality, and must contain certifications to patents listed with the FDA for the reference listed drug.

Every state has a law permitting or requiring pharmacists to substitute generic equivalents for brand-name prescriptions unless the physician has prohibited substitution. Managed care organizations often urge physicians to prescribe drugs with generic equivalents, and to authorize substitution, as a means of controlling costs. They also may require lower copayments as an incentive to patients to ask for and accept generics.

While the question of substitutability is one of state law, most states look to the FDA to determine whether a generic is substitutable. FDA lists therapeutic equivalence ratings in a publication often referred to as the Orange Book. In general, a generic drug that is listed in the Orange Book as therapeutically equivalent to the branded product will be substitutable under state law and, conversely, a generic drug that is not so listed will not be substitutable. To be considered therapeutically equivalent, a generic drug must first be a pharmaceutical equivalent of the branded drug. This means that the generic has the same active ingredient, dosage form, strength or concentration and route of administration as the brand-name drug. Tablets and capsules are presently considered different dosage forms that are pharmaceutical alternatives and not substitutable pharmaceutical equivalents.

In addition to being pharmaceutical equivalents, therapeutic equivalents must be bioequivalent to their branded counterparts. Bioequivalence for this purpose is defined in the same manner as for

ANDA approvals, and usually requires a showing of comparable rate and extent of absorption in a small human study.

Solid oral dosage form drug products generally are rated AB in the Orange Book if they are considered therapeutic equivalents. If bioequivalence has been adequately demonstrated, the products will be rated "AB."

Foreign Regulation and Product Approval

Outside the United States, our ability to market a product candidate is contingent upon receiving a marketing authorization from the appropriate regulatory authorities. The requirements governing the conduct of clinical trials, marketing authorization, pricing and reimbursement vary widely from country to country. At present, foreign marketing authorizations are applied for at a national level, although within the European Community, or EC, registration procedures are available to companies wishing to market a product in more than one EC member state. If the regulatory authority is satisfied that adequate evidence of safety, quality and efficacy has been presented, a marketing authorization will be granted. This foreign regulatory approval process involves all of the risks associated with FDA clearance discussed above.

Other Regulations

In the U.S., the research, manufacturing, distribution, sale, and promotion of drug and biological products 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 (formerly the Health Care Financing Administration), 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. For example, sales, marketing and scientific/educational grant programs must comply with the anti-kickback and fraud and abuse provisions of the Social Security Act, as amended, the False Claims Act, also as amended, the privacy provisions of the Health Insurance Portability and Accountability Act, or HIPAA, and similar state laws. Pricing and rebate programs must comply with the Medicaid rebate requirements of the Omnibus Budget Reconciliation Act of 1990, as amended, and the Veterans Health Care Act of 1992, as amended. If products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. All of these activities are also potentially subject to federal and state consumer protection and unfair competition laws.

We are also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control, and disposal of hazardous or potentially hazardous substances. We may incur significant costs to comply with such laws and regulations now or in the future.

Reimbursement and Pricing Controls

In many of the markets where we or our collaborative partners would commercialize a product following regulatory approval, the prices of pharmaceutical products are subject to direct price controls (by law) and to drug reimbursement programs with varying price control mechanisms.

In the United States, there has been an increased focus on drug pricing in recent years. Although there are currently no direct government price controls over private sector purchases in the United States, federal legislation requires pharmaceutical manufacturers to pay prescribed rebates on certain drugs to enable them to be eligible for reimbursement under certain public health care programs such as Medicaid. Various states have adopted further mechanisms under Medicaid and otherwise that seek to control drug prices, including by disfavoring certain higher priced drugs and by seeking supplemental rebates from manufacturers. Managed care has also become a potent force in the market place that increases downward pressure on the prices of pharmaceutical products. Federal legislation, enacted in

December 2003, has altered the way in which physician-administered drugs covered by Medicare are reimbursed. Under the new reimbursement methodology, physicians are reimbursed based on a product's "average sales price," or ASP. This new reimbursement methodology has generally led to lower reimbursement levels. The new federal legislation also has added an outpatient prescription drug benefit to Medicare, effective January 2006. In the interim, Congress has established a discount drug card program for Medicare beneficiaries. Both benefits will be provided primarily through private entities, which will attempt to negotiate price concessions from pharmaceutical manufacturers.

Public and private health care payors control costs and influence drug pricing through a variety of mechanisms, including through negotiating discounts with the manufacturers and through the use of tiered formularies and other mechanisms that provide preferential access to certain drugs over others within a therapeutic class. Payors also set other criteria to govern the uses of a drug that will be deemed medically appropriate and therefore reimbursed or otherwise covered. In particular, many public and private health care payors limit reimbursement and coverage to the uses of a drug that are either approved by the FDA or that are supported by other appropriate evidence (for example, published medical literature) and appear in a recognized drug compendium. Drug compendia are publications that summarize the available medical evidence for particular drug products and identify which uses of a drug are supported or not supported by the available evidence, whether or not such uses have been approved by the FDA. For example, in the case of Medicare coverage for physician-administered oncology drugs, the Omnibus Budget Reconciliation Act of 1993, or OBRA '93, with certain exceptions, prohibits Medicare carriers from refusing to cover unapproved uses of an FDA-approved drug if the unapproved use is supported by one or more citations in the American Hospital Formulary Service Drug Information, the American Medical Association Drug Evaluations, or the U.S. Pharmacopoeia Drug Information. Another commonly cited compendium, for example under Medicaid, is the DRUGDEX Information System.

Different pricing and reimbursement schemes exist in other countries. For example, in the European Union, governments influence the price of pharmaceutical products through their pricing and reimbursement rules and control of national health care systems that fund a large part of the cost of such products to consumers. The approach taken varies from member state to member state. Some jurisdictions operate positive and/or negative list systems under which products may only be marketed once a reimbursement price has been agreed. Other member states allow companies to fix their own prices for medicines, but monitor and control company profits. The downward pressure on health care costs in general, particularly prescription drugs, has become very intense. As a result, increasingly high barriers are being erected to the entry of new products, as exemplified by the National Institute for Clinical Excellence in the UK which evaluates the data supporting new medicines and passes reimbursement recommendations to the government. In addition, in some countries cross-border imports from low-priced markets (parallel imports) exert a commercial pressure on pricing within a country.

Employees

As of January 3, 2006, we had 67 employees. Of the 67 employees, 24 perform research and development activities, including both preclinical programs and clinical trials, 29 work in sales, marketing, business development and communications and 14 perform general and administrative tasks.

Facilities

Our principal executive offices are located in an approximately 30,000 square foot facility in Hawthorne, NY, which houses offices and laboratory space. The current annual rent for this facility is \$642,000. We believe that our facility is currently adequate for our purposes and that it will continue to be so for the foreseeable future. The lease for this facility expires in January 2008.

Legal Proceedings

We are not currently a party to any material legal proceedings.

MANAGEMENT

Executive Officers and Directors

The following table sets forth, as of December 31, 2005, information about our executive officers and directors.

Name	Age	Position(s)
Ron Cohen, M.D.	49	President, Chief Executive Officer and Director
Andrew R. Blight, Ph.D.	55	Chief Scientific Officer
Mary Fisher	44	Chief Operating Officer
David Lawrence, M.B.A.	48	Chief Financial Officer
Jane Wasman	49	Executive Vice President, General Counsel and Secretary
Standish M. Fleming(2)	58	Director
John Friedman	52	Director
Sandra Panem, Ph.D.(1)	59	Director
Barclay A. Phillips(2)	43	Director
Mark R.E. Pinney, M.B.A., C.F.A., M.S.	51	Director
Steven M. Rauscher(1)	52	Director
Michael Steinmetz, Ph.D.(2)	58	Director
Wise Young, Ph.D., M.D.(1)	55	Director

(1) Member of the executive compensation committee

(2) Member of the audit committee

Ron Cohen, M.D., has served as our President and Chief Executive Officer since he founded Acorda in 1995. Dr. Cohen previously was a principal in the startup of Advanced Tissue Sciences, Inc., a biotechnology company engaged in the growth of human organ tissues for transplantation uses. Dr. Cohen received his B.A. degree with honors in Psychology from Princeton University, and his M.D. from the Columbia College of Physicians & Surgeons. He completed a residency in Internal Medicine at the University of Virginia Medical Center, and is Board Certified in Internal Medicine. Dr. Cohen serves on the Board of Directors of Zymenex A/S, a Danish pharmaceutical company, and on the Emerging Company Section of the Board of the Biotechnology Industry Organization (BIO). He is Chairman Emeritus and a Director of the Board of the New York Biotechnology Association and also serves as on the Scientific Advisory Board of the Daniel Heumann Fund and as a member of the Columbia-Presbyterian Health Sciences Advisory Council.

Andrew R. Blight, Ph.D., has been our Chief Scientific Officer since January 2004 and previously served as our Executive Vice President, Research and Development from 2000 to 2004, and Vice President, Research and Development, from 1998 to 2000. Prior to joining Acorda, Dr. Blight spent approximately six years as Professor and Director of the Neurosurgery Research Laboratory at the University of North Carolina at Chapel Hill. Dr. Blight held prior academic positions at Purdue University and New York University. Dr. Blight is a leader in SCI pathophysiology research and has made several important contributions to the field, particularly on the role of demyelination in SCI. He also pioneered the therapeutic application of 4-AP in SCI animal models and in human clinical trials. Dr. Blight is a member of the editorial board of the Journal of Neurotrauma and has served as a member of the NIH NSDA review committee. He was previously Secretary, Treasurer and Vice President of the National Neurotrauma Society. Dr. Blight received his B.S. in Zoology and his Ph.D. in Zoology/Neurobiology from the University of Bristol, U.K.

Mary Fisher has been our Chief Operating Officer since January 2005 and previously served as our Vice President, Commercial Operations from 2003 through 2004 and Vice President, Marketing

and Strategic Planning from 2000 to 2003. From 1999 to 2000, Ms. Fisher was an independent consultant to various pharmaceutical companies. From 1994 to 1999, Ms. Fisher was Vice President, Strategic Healthcare and Commercial Operations for Cephalon, Inc. In that capacity she was responsible for the company's corporate sales, managed care marketing, pricing, reimbursement, health economics, patient support programs, product planning, commercial manufacturing, distribution and customer service. From 1990 until joining Cephalon, Ms. Fisher was Corporate Communications Manager for Immunex Corporation.

David Lawrence, M.B.A., has been our Chief Financial Officer since January 2005. He previously served as our Vice President, Finance from January 2001 through 2004, and Director, Finance from 1999 to 2001. From 1991 to 1999, Mr. Lawrence held several positions for Tel-Air Communications, Inc. including Vice President and Controller. Prior to Tel-Air, he held financial management positions of Controller and Finance Manager for Southwestern Bell and Metromedia Telecommunications respectively. Mr. Lawrence received his undergraduate degree in Accounting from Roger Williams College, and an M.B.A in Finance from Iona College. Mr. Lawrence is a founding member and currently serves on the Board of Directors as Treasurer of The Brian Ahearn Children's Fund.

Jane Wasman, J.D., has been our Executive Vice President, General Counsel and Corporate Secretary since May 2004. From 1995 to 2004, Ms. Wasman held various leadership positions at Schering-Plough Corporation, including Staff Vice President and Associate General Counsel responsible for legal support for U.S. Pharmaceuticals operations, including sales, marketing and compliance; FDA regulatory matters; global research and development; and, corporate licensing and business development. She served as Staff Vice President, International in 2001 and as Staff Vice President, European Operations Legal from 1998 to 2000. Previously, Ms. Wasman specialized in litigation at Fried, Frank, Harris, Shriver & Jacobson. She also served as Associate General Counsel to the U.S. Senate Committee on Veteran's Affairs. Ms. Wasman graduated Magna Cum Laude from Princeton University and earned her J.D. from Harvard Law School.

Standish M. Fleming has been a member of our Board of Directors since 2004. He is a 19-year veteran of life sciences venture capital investing. Mr. Fleming co-founded Forward Ventures in 1993. Before establishing Forward Ventures II in 1993, Mr. Fleming served as start-up chairman, president and CEO of GeneSys Therapeutics (now part of Cell Genesys). He has served as founding director and acting president of Triangle Pharmaceuticals (now part of Gilead Sciences, Inc.), CombiChem (now part of Bristol-Myers Squibb) and Corixa and GenQuest (now both part of GlaxoSmithKline). Mr. Fleming was a founding board member of CIPHERGEN Biosystems and Gryphon Sciences. He is a former president of the Biotechnology Venture Investors Group. Mr. Fleming began his venture career with Ventana Growth Funds in San Diego in 1986. Mr. Fleming earned his B.A. from Amherst College and his M.B.A. from the UCLA Graduate School of Management. Mr. Fleming has served on the boards of 19 venture-backed companies and is also currently a director of Ambit and Sanarus Medical, and a founding director of Arizeke Pharmaceuticals and Nereus Pharmaceuticals.

John Friedman has been a member of our Board of Directors since 2003. Mr. Friedman is the Managing Partner of Easton Hunt Capital Partners, L.P., a private investment firm that he founded in 1999. Since 1991, Mr. Friedman has also been the President of Easton Capital Corp., a private investment firm. He also helped manage Atrium Capital Corporation, an investment firm, from 1991 to 1993. From 1989 to 1991, Mr. Friedman was the founder and Managing General Partner of Security Pacific Capital Investors, a private investment firm. Prior to joining Security Pacific, Mr. Friedman was a Managing Director and Partner at E.M. Warburg, Pincus & Co., Inc., where he was employed from 1981 to 1989. From 1978 to 1980, Mr. Friedman was an attorney with Sullivan & Cromwell LLP and during 1980 he was employed at Shearson Loeb Rhoades. Mr. Friedman received a B.A. in History from Yale College and a J.D. degree from Yale Law School. Mr. Friedman is a member of the board of directors of Comverse Technology, Inc., a telecommunications equipment company, YM BioSciences, Inc., a

biotechnology company, Renovis, a biotechnology company, Conor Medsystems, Inc., a drug delivery technology company, as well as several private companies. Mr. Friedman is also co-chairman of the President's Council of the Cold Spring Harbor Laboratory.

Sandra Panem, Ph.D., has been a member of our Board of Directors since 1998. She is currently a partner at Cross Atlantic Partners, which she joined in 2000. From 1994 to 1999, Dr. Panem was President of Vector Fund Management, the then asset management affiliate of Vector Securities International. Prior thereto, Dr. Panem served as Vice President and Portfolio Manager for the Oppenheimer Global BioTech Fund, a mutual fund that invested in public and private biotechnology companies. Previously, she was Vice President at Salomon Brothers Venture Capital, a fund focused on early and later-stage life sciences and technology investments. Dr. Panem was also a Science and Public Policy Fellow in economic studies at the Brookings Institution, and an Assistant Professor of Pathology at the University of Chicago. She received a B.S. in biochemistry and Ph.D. in microbiology from the University of Chicago. Dr. Panem currently serves on the boards of directors of Martek Biosciences Corp., Bioject Medical Technologies, Inc., Labcyte, Inc. and Confluent Surgical, Inc.

Barclay A. Phillips has been a member of our Board of Directors since September 2004. Mr. Phillips has been a Managing Director of Vector Fund Management, a venture capital firm focused on investments in the life sciences and healthcare industry, since 1999. From 1991 to 1999, Mr. Phillips served in various roles including Director of Private Placements and Biotechnology Analyst for INVESCO Funds Group, Inc. From 1985 to 1990, Mr. Phillips held positions in sales and trading with Paine Webber, Inc. and Shearson Lehman Hutton, Inc. Over the last twelve years, Mr. Phillips has served on the boards of a number of private companies and currently serves as a Director of CancerVax Corp. Mr. Phillips received a B.A. in economics from the University of Colorado.

Mark R. E. Pinney, M.B.A., C.F.A., M.S., joined our Board of Directors at our founding. He was also our Chief Financial Officer from 2001 to 2004. Since 2004, he has served as Chief Financial Officer and Chief Privacy Officer of Tacoda Systems, Inc. From 2000 to 2001, Mr. Pinney was Chairman of CanDo, Inc., an Internet company that offered product and service solutions to people with disabilities. In 1998, he co-founded and was Chief Executive Officer of LifeWire, Inc., a company developing community-based destination web sites for the disability population. LifeWire merged with CanDo in 2000. Mr. Pinney also co-founded Real Media, Inc., an Internet advertising software and services firm, in 1996. From 1984 to 1988, he was Vice President, Corporate Finance for Merrill Lynch Capital Markets and from 1988 to 1992, he was Vice President, Private Transactions at Dillon Read & Co., Inc. Mr. Pinney also serves on the Advisory Board of United Spinal Association. He received an undergraduate degree in engineering at the University of Exeter, England, an M.B.A. from the University of Chicago Graduate School of Business and a masters degree in engineering from Columbia University. He is a Chartered Financial Analyst.

Steven M. Rauscher has served on our Board of Directors since 2005. He is President and CEO of Oscient Pharmaceuticals Corporation, a commercial stage biopharmaceutical company. He joined Oscient in 2000 having served as a member of the Board of Directors since 1993. Previously, Mr. Rauscher was CEO of AmericasDoctor, a company providing clinical research services to the pharmaceutical industry. Prior to AmericasDoctor, he held a number of leadership positions at Abbott Laboratories, including Vice President of Corporate Licensing, Vice President of Business Development, International Division and Vice President of Sales, U.S. Pharmaceuticals. Mr. Rauscher received a B.S. from Indiana University and an M.B.A. from the University of Chicago.

Michael Steinmetz, Ph.D., has been a member of our Board of Directors since 1999. Dr. Steinmetz is a Managing Director at Clarus Ventures LLC, a company he co-founded in 2005. From 1999 to June 2005, he was a General Partner of MPM's BioVentures' Funds. Prior to MPM, he held positions at various academic institutions, including the California Institute of Technology and the Basel Institute for Immunology where he was a permanent member. In 1986, he joined Hoffmann-La Roche and held

various leadership positions in R&D, initially in Switzerland and subsequently in the United States where, as Vice President of Preclinical Research and Development, he was responsible for Roche's drug discovery activities in the United States and Roche's global biotechnology efforts. Dr. Steinmetz received a degree in chemistry from the University of Hamburg, Germany and holds a Ph.D. from the University of Munich, Germany. He has done academic research in the areas of Biochemistry, Molecular Biology and Immunology and has published over 130 manuscripts in leading scientific journals.

Wise Young, Ph.D., M.D., has been a member of the board of directors and of our scientific advisory board since the founding of the company in 1995. Dr. Young has been at Rutgers University since 1997, where he serves as Professor and Chair of the Department of Cell Biology and Neuroscience, Professor II and Director of the Neuroscience Center and founder of the W.M. Keck Center for Neuroscience. Dr. Young is one of the preeminent scientists in the fields of spinal cord injury and neurotrauma, SCI animal models, and the pharmacological therapy of SCI. He was the Principal Investigator for the Multicenter Animal Spinal Cord Injury Study, funded by the National Institutes of Health; is editor-in-chief of *Current Concepts in Critical Care and Trauma*; and serves on numerous editorial boards, including those of *Experimental Neurology*, *Journal of Neurotrauma*, *Brain Research* and *Stroke*. Dr. Young has received the Wakeman Award for Research in Neurosciences, and a Jacob Javits Neuroscience Award from the National Institute of Neurological Disorder and Stroke. He is also a member of the Scientific Advisory Council of the American Paralysis Association and of the National Acute Spinal Cord Injury Study executive committee. Dr. Young received a B.A. in biology and chemistry from Reed College, a Ph.D. in physiology and biophysics from the University of Iowa and an M.D. from Stanford University.

Board Composition

Our board of directors currently has nine members. Upon completion of this offering, our board of directors will consist of nine directors divided into three classes, with each class serving for a term of three years:

the class I directors will be Mr. Pinney, Dr. Steinmetz and Mr. Fleming; their terms will expire at the annual meeting of stockholders to be held in 2006;

the class II directors will be Dr. Panem, Dr. Young and Mr. Friedman; their terms will expire at the annual meeting of stockholders to be held in 2007; and

the class III directors will be Dr. Cohen, Mr. Rauscher and Mr. Phillips; their terms will expire at the annual meeting of stockholders to be held in 2008.

At each annual meeting of stockholders, the successors to directors whose terms will then expire will be elected for three-year terms. This classification of the board of directors may have the effect of delaying or preventing changes in control or management. See "Risk Factors" Certain provisions of Delaware law, our certificate of incorporation and our by-laws may delay or prevent an acquisition of us that stockholders may consider favorable or may prevent efforts by our stockholders to change our directors or our management, which could decrease the value of your shares."

We believe that a majority of the members of our Board of Directors will be independent under the current independence requirements of the Nasdaq National Market and the Securities and Exchange Commission, or the SEC. The authorized number of directors may be changed by resolution adopted by a majority of the board of directors.

Board Observation Rights

In connection with our Revenue Interests Assignment Agreement with PRF, we granted PRF the right to appoint a representative to receive all notices and materials provided to our board of directors

and to attend as an observer all meetings of our board of directors, subject to certain exceptions. Mr. Gregory B. Brown, M.D. is the initial representative designated by PRF for such purpose. This right will terminate on the earlier to occur of the fourth anniversary of the completion of an initial public offering of shares of our common stock or termination of our agreement with PRF.

Director Compensation

Our outside directors compensation policy provides that new outside directors on our board receive an initial grant of stock options in the amount of 0.2% of the fully diluted shares of our common stock, or a comparable adjusted number of stock appreciation rights or shares of restricted stock, with a fair market value exercise price and a three-year quarterly vesting schedule commencing on the date of the award, unless they hold at least an equivalent amount of common stock through prior ownership. On an annual basis, at the discretion of the board of directors upon the recommendation of the compensation committee, outside directors can receive stock options in the amount of up to 0.02% of the fully diluted shares of our common stock, or a comparable adjusted number of stock appreciation rights or shares of restricted stock, with a fair market value exercise price and a one-year quarterly vesting schedule. Upon consummation of this offering, this compensation policy will be extended to all of the outside directors on our board of directors. Directors are also reimbursed for reasonable expenses related to their service on our board of directors.

Board Committees

Our board of directors has an audit committee, a compensation committee and a nominations committee.

Audit Committee

Our audit committee consists of Mr. Phillips, Mr. Fleming and Dr. Steinmetz. Mr. Phillips serves as chair of our audit committee. Our board of directors has determined that Mr. Fleming qualifies as an "audit committee financial expert" as that term is defined in Item 401(h) of Regulation S-K of the Securities Act. We believe that the composition of our audit committee meets, and the functioning of our audit committee will comply with, the applicable requirements of the Sarbanes-Oxley Act of 2002, the Nasdaq National Market and SEC rules and regulations.

Our audit committee is responsible for:

approving and retaining the independent auditors to conduct the annual audit of our books and records;

reviewing the proposed scope and results of the audit;

reviewing and pre-approving the independent auditors' audit and non-audit services rendered;

approving the audit fees to be paid;

reviewing accounting and financial controls with the independent auditors and our financial and accounting staff;

reviewing and approving transactions between us and our directors, officers and affiliates;

recognizing and preventing prohibited non-audit services;

establishing procedures for complaints received by us regarding accounting matters;

overseeing internal audit functions; and

overseeing non-financial compliance.

We have adopted a written audit committee charter that we will make available on our website.

Compensation Committee

Our compensation committee consists of Dr. Panem, Mr. Rauscher and Dr. Young. Dr. Panem serves as chair of our compensation committee. We believe that the composition of our compensation committee meets, and the functioning of our compensation committee will comply with, the applicable requirements of the Nasdaq National Market and SEC rules and regulations. Our compensation committee is responsible for:

reviewing and recommending the compensation arrangements for executives, including the compensation for our president and chief executive officer;

establishing and reviewing general compensation policies with the objective to attract and retain superior talent, to reward individual performance and to achieve our financial goals; and

administering our stock incentive plan and annual bonus pool.

We have adopted a written compensation committee charter that we will make available on our website.

Nominations Committee

Effective upon the closing of this offering, our nominations committee will consist of Mr. Friedman, Dr. Panem and Dr. Steinmetz. Mr. Friedman will serve as chair of the committee. The nominations committee will be responsible for identifying potential candidates to serve on our board. We have approved a written nominations committee charter that also will be effective upon the closing of this offering and that sets forth procedures for the consideration of director nominees and other related matters.

Code of Ethics

Our board of directors has adopted a code of ethics for all directors, officers and employees. We will make this code available on our website upon completion of this offering.

Compensation Committee Interlocks and Insider Participation

The compensation of our executive officers is currently determined by our compensation committee, as described above. None of our executive officers has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Dr. Panem is affiliated with Cross Atlantic Partners, which participated in the sale of our Series J preferred stock in a private placement consummated in May 2003. Pursuant to an amended and restated registration rights agreement among us and certain of our stockholders, including entities affiliated with Dr. Panem, the parties to the registration rights agreement have demand and piggy-back registration rights. See "Certain Relationships and Related Transactions."

Executive Compensation

The following summary compensation table sets forth the aggregate compensation awarded to, earned by or paid to the following individuals during the fiscal year ended December 31, 2005:

our chief executive officer; and

our four other most highly compensated executive officers who were serving as executive officers as of December 31, 2005.

We refer to these individuals as our "named executive officers."

SUMMARY COMPENSATION TABLE

Name and Principal Position	Annual Compensation			Long-Term Compensation	
	Year	Salary	Bonus(2)	Securities Underlying	
				Restricted Stock Award(3)	Options(4)
Ron Cohen, M.D. President and Chief Executive Officer	2005	\$ 305,000	\$ 0	260,385	51,265
Andrew R. Blight, Ph.D. Chief Scientific Officer	2005	\$ 215,000	\$ 0	97,385	52,338
Mary Fisher Chief Operating Officer	2005	\$ 225,000	\$ 0	157,231	132,323
Jane Wasman Executive VP & General Counsel	2005	\$ 225,000	\$ 0	77,615	44,769
David Lawrence M.B.A. Chief Financial Officer	2005	\$ 180,000	\$ 0	64,231	70,109
				835,847(1)	350,804

(1) The total aggregate restricted stock holdings as of December 31, 2005.

(2) Bonuses were earned in 2005 and will be paid in 2006. The amounts have not yet been determined.

(3) These restricted stock awards are subject to vesting over a four-year period as follows: the first installment will vest on the last to occur of (a) the expiration of the lock-up period following our initial public offering, and (b) the third day after public announcement of data regarding either the primary outcome measure of our Fampridine-SR Phase 3 trial in MS or suspension or termination of the trial, whichever comes first, and (c) in the case of Ron Cohen, June 30, 2007; except that if the vesting date under (a) or (b) or (c) would occur during a "blackout" period under our insider trading policy, the vesting date will be the first day following termination of the blackout period. The first vested installment under each restricted stock award will be calculated as the total number of shares covered by the award multiplied by a fraction, the numerator of which is the number of months from the vesting commencement date to the date on which the first installment of restricted shares vest, or the "initial vesting date," and the denominator is 48. All remaining restricted shares will vest in equal quarterly installments, measured from the vesting commencement date, except that for any partial quarter in which the initial vesting date occurs, the unvested portion of shares remaining for that quarter will vest at the end of such quarter. The vesting commencement date for each of these individuals was March 9, 2004, with the exception of Ms. Wasman, whose vesting commencement date was May 10, 2004.

(4) Stock options were granted in 2005 with a four-year vesting schedule vesting in equal quarterly installments.

Stock Options

Aggregate Exercise of Stock Options and Year-end Option Values

The following table contains information regarding the number of shares of common stock subject to both exercisable and unexercisable stock options, as well as the value of unexercisable in-the-money options as of December 31, 2005 for the named executive officers. There was no public market for our common stock as of December 31, 2005. Accordingly, the value of unexercised in-the-money options as of such date has been calculated by determining the difference between the exercise price per share

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and an assumed offering price of \$ per share, which is the midpoint of the estimated price range shown on the cover of this prospectus.

Name	Shares Acquired on Exercise	Value Realized (\$)	Number of Securities Underlying Unexercised Options at December 31, 2005		Value of Unexercised In-the-Money Options at December 31, 2005	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Ron Cohen	0	0	665,721	38,452	\$	\$
Andrew Blight	0	0	108,205	39,255		
Mary Fisher	0	0	69,965	99,245		
Jane Wasman	0	0	11,193	33,576		
David Lawrence	0	0	46,415	52,584		

The following table sets forth the number of shares underlying options that have been issued to each of the named executive officers in calendar year 2005. No stock appreciation rights have been granted to these individuals. The potential realizable value set forth in the last column of the table is calculated based on the term of the option at the time of grant, which is ten years. This value is based on assumed rates of stock price appreciation of 0%, 5% and 10% compounded annually from the date of grant until their expiration date, assuming a fair market value equal to the mid-point of the estimated price range of an offering, minus the applicable exercise price. These numbers are calculated based on the requirements of the SEC and do not reflect our estimate of future stock price growth. Actual gains, if any, on stock option exercises will depend on future performance of the common stock on the date on which the options are exercised.

Name	Number of Shares Underlying Stock Options Granted in Calendar Year 2005(1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/share)	Market Price on Date of Grant (\$/share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
						5%	10%
Ron Cohen	51,265	8.8%	\$ 8.14		1/1/2015		
Andrew Blight	52,338	9.0%	\$ 8.14		1/1/2015		
Mary Fisher	132,323	22.7%	\$ 8.14		1/1/2015		
Jane Wasman	44,769	7.7%	\$ 8.14		1/1/2015		
David Lawrence	70,109	12.0%	\$ 8.14		1/1/2015		

(1) The stock options are granted with a four-year vesting schedule, vesting in equal quarterly installments.

(2) Amounts represent hypothetical gains that could be achieved for stock options if exercised at the end of the option term. The potential realizable values at 5% and 10% appreciation are calculated by (i) multiplying the number of common shares of common stock subject to a given stock option by a fair market value of \$ price per share; (ii) assuming that the aggregate stock value derived from that calculation compounds at the annual rate of 5% or 10% shown in the table from September 30, 2005 until the expiration of the option; (iii) subtracting from that result the aggregate option exercise price.

Stock Incentive Plans

Our board of directors has adopted two equity incentive plans: our 2006 Stock Incentive Plan (the 2006 Plan) and our 1999 Employee Stock Option Plan (the 1999 Plan and, together with the 2006 Plan, the Plans). A total of 3,723,736 shares of our common stock will be available for issuance under the Plans, including 700,522 shares remaining eligible for the grant of awards. Following the effective date of the 2006 Plan, no additional awards will be made under the 1999 Plan.

The 2006 Plan, adopted on January 3, 2006, will become effective on the date as of which it is approved by our stockholders. The 1999 Plan was adopted by our board of directors in June 1999. The Plans allow us to issue incentive and nonstatutory stock options, restricted stock awards and stock

appreciation rights for shares of our common stock. The 2006 Plan will terminate ten years after the effective date of the plan.

There are a total of 3,723,736 shares of common stock that will be available for issuance under the 2006 Plan (including an amount to be added under the "evergreen" provision described below on the day the plan is approved by the shareholders), which includes the shares issuable upon the exercise of outstanding awards under the 1999 Plan and a number of shares equal to the remaining shares reserved for awards under the 1999 Plan. In addition, the 2006 Plan contains an "evergreen" provision which provides for automatic annual increases to the share reserve under the 2006 Plan on the first day of each fiscal year by a number of shares equal to the lesser of:

4% of our then outstanding shares of common stock; or

a number of shares determined by our board of directors.

Although a similar evergreen provision is contained in our 1999 Plan, this provision has been amended, effective upon the adoption of the 2006 Plan by our board of directors, so as not to increase the reserved shares under the 1999 Plan.

Our compensation committee administers the Plans, selects those persons who are to be granted awards under the 2006 Plan and determines the terms and conditions of those awards. Our directors, key employees, independent contractors, agents and consultants are eligible to receive awards under our Plans, but only employees and officers may receive incentive stock options.

The exercise price per share of the incentive stock options awarded under the Plans must be at least equal to the fair market value of a share of our common stock on the date of grant. The exercise price per share of nonstatutory stock options awarded under the Plans must be equal to the fair market value of a share of our common stock on the date of grant, or such other price that the compensation committee may determine is appropriate. The compensation committee determines the exercise period of the stock options, but in no event will the stock options expire later than ten years from the date of grant. Except as the compensation committee may otherwise determine, upon the voluntary termination or involuntary termination without cause of the option holder, the stock options may be exercised for a period of three months after such termination. In the case of termination of the option holder by reason of retirement or due to disability, the stock options may be exercised at any time to the extent that such stock option was vested, but only within one year of termination in the case of incentive stock options. In the case of termination by death, the option holder's estate, or any person who acquires the stock option by reason of the option holder's death, may exercise the stock option within a period of three years after the option holder's death.

An award under our Plans will become vested only if the vesting conditions set forth in the award agreement, as determined by the compensation committee, are satisfied. The vesting conditions may include performance of services for a specified period, achievement of performance objectives or a combination of the two types of criteria. Performance objectives may be based on financial or operating measures. In granting performance-based awards under the 2006 Plan, which are regulated by Section 162(m) of the Internal Revenue Code, the compensation committee is bound to follow the criteria established under the 2006 Plan.

Under the 2006 Plan, upon a reorganization event, as defined, each outstanding award under the 2006 Plan, with certain exceptions, must either be assumed or an equivalent award substituted by the successor entity in the reorganization. If an award is assumed and, within 18 months after the reorganization event the recipient's employment is terminated without cause or he or she terminates employment for good reason, the award will become exercisable in full. If the successor entity does not assume outstanding awards at the time of a reorganization event, the compensation committee must provide that either (i) all or some portion of outstanding awards will be accelerated immediately prior to the reorganization event, or (ii) all outstanding awards will terminate upon consummation of the reorganization event and each recipient of an award will receive, in exchange for the award, a cash

payment equal to the value of the award, or (iii) if our common stock remains publicly traded, the awards will remain in place unchanged.

Under the 1999 Plan, in the event of a tender offer by a person or persons other than us, for all or any part of the outstanding stock which, following consummation of the tender offer would result in the offeror's or offerors' owning, beneficially or of record, an aggregate of more than 25% of our outstanding common stock, or in the event of a change of control as defined, stock options under the 1999 Plan will become immediately exercisable to the extent of the total number of shares subject to the stock options. The compensation committee may authorize payment of cash upon exercise of a stock appreciation right in the event of a tender offer as described above, or a change of control.

In September 2003, we repriced 115,578 stock options issued to employees, which had an exercise price per option of more than \$7.64, with a new exercise price of \$7.64. In March 2004, we repriced 1,227,648 stock options issued to employees, which had an exercise price per option of more than \$2.60, with a new exercise price per option of \$2.60. We recognized additional compensation charges for these repricings (see Note 9 to our consolidated financial statements included in this prospectus).

401(k) Plan

Effective September 1, 1999, we adopted a defined contribution 401(k) savings plan covering all of our employees. Participants may elect to defer a percentage of their annual pre-tax compensation to the 401(k) plan, subject to defined limitations. Our board of directors has discretion to match contributions made by our employees. We did not make any matching contributions to the plan in fiscal years 2000, 2001, 2002 or in calendar years 2003 and 2004.

Employment Contracts, Termination of Employment and Change-in-Control Arrangements

We are a party to an employment agreement with Dr. Cohen that governs the terms and conditions of his employment as our President and Chief Executive Officer. The employment agreement provides for a base annual salary of \$280,000, subject to annual increases and bonuses at the discretion of the board of directors. His current salary is \$305,000. Dr. Cohen is eligible to receive annual performance-based stock options to purchase common stock in an amount determined by the board of directors based on Dr. Cohen's individual performance and the achievement of our goals and objectives. Dr. Cohen's employment agreement would have expired in January 2004, but is subject to automatic successive one-year renewal periods unless either Dr. Cohen or we give the other written notice at least 60 days prior to the expiration date that Dr. Cohen or we do not intend to renew the contract. Dr. Cohen's employment agreement has been renewed effective January 2005 for a one-year period. In the event we terminate the agreement with Dr. Cohen without cause, or if Dr. Cohen voluntarily terminates the agreement with good reason, we are obligated to make severance payments equal to one year's base annual salary and COBRA premium payments for the severance period plus a bonus equal to his prior year's bonus pro rated for the number of days worked prior to termination. In such event, all of Dr. Cohen's options will become immediately exercisable and will remain exercisable for 48 months following termination. If Dr. Cohen's employment terminates for death or disability, we are obligated to pay his base salary for three months and COBRA premiums for the COBRA coverage period and 65% of his outstanding options will become immediately vested and remain exercisable for 48 months following such termination. In the event of a change in control, the vesting of Dr. Cohen's options will be governed by the terms of our stock option plan and his stock option agreement, but in no event will less than 65% of Dr. Cohen's then unvested stock options become immediately vested and exercisable. If Dr. Cohen voluntarily terminates his employment without good reason following a change in control, he is entitled to receive the same severance and bonus package described above, however, only 65% of his outstanding options will become immediately vested and remain exercisable for 48 months following termination. Following his termination of employment, Dr. Cohen will remain subject to confidentiality, non-competition and non-solicitation covenants for one year in the case of non-competition and non-solicitation and five years in the case of confidentiality.

On September 26, 2004, we entered into an amendment to Dr. Cohen's employment agreement to increase the amount of severance to which he would be entitled in the event of a termination of his employment by us without cause or by Dr. Cohen with good reason from one year to 15 months and to make such severance, together with his prorated bonus, payable in one lump sum within 30 days after such termination.

We are party to an employment agreement with Dr. Blight that governs the terms and conditions of his employment as our Chief Scientific Officer. The employment agreement provides for a base annual salary of \$215,000, subject to annual review by Dr. Cohen and by the compensation committee of the Board of Directors. His current salary is \$215,000.

We are party to an employment agreement with Ms. Fisher that governs the terms and conditions of her employment as our Chief Operating Officer. The employment agreement provides for a base annual salary of \$225,000, subject to annual review by Dr. Cohen and by the compensation committee of the Board of Directors. Her current salary is \$225,000.

We are party to an employment agreement with Mr. Lawrence that governs the terms and conditions of his employment as our Chief Financial Officer. The employment agreement provides for a base annual salary of \$180,000, subject to annual review by Dr. Cohen and by the compensation committee of the Board of Directors. His current salary is \$180,000.

We are party to an employment agreement with Ms. Wasman that governs the terms and conditions of her employment as our Executive Vice President, General Counsel and Corporate Secretary. The employment agreement provides for a base annual salary of \$225,000, subject to annual review by Dr. Cohen and by the compensation committee of the Board of Directors. Her current salary is \$225,000.

Pursuant to their employment agreements, Dr. Blight, Ms. Fisher, Mr. Lawrence and Ms. Wasman are eligible to receive an annual bonus and to receive annual performance-based stock options to purchase common stock, stock appreciation rights awards and/or restricted stock awards of common stock in an amount to be recommended by the compensation committee and approved by the board of directors based on their respective performances and upon the achievement of our goals and objectives. Each of their employment agreements expires on December 19, 2006 but is subject to extension by the mutual agreement of both parties.

In the event we terminate our employment agreement with Dr. Blight, Ms. Fisher, Mr. Lawrence or Ms. Wasman without cause, or if one of them voluntarily terminates his or her agreements with good reason, we are obligated to make severance payments equal to nine months base annual salary, in the case of Dr. Blight and Ms. Fisher, and seven months base annual salary, in the case of Mr. Lawrence and Ms. Wasman, as well as COBRA premium payments for the severance period. In such event, all options, stock appreciation rights awards and restricted stock awards that have vested as of the termination date shall remain exercisable for 90 days following such date. All unvested options, stock appreciation rights awards and stock awards will be cancelled on the date of termination. If Dr. Blight, Ms. Fisher, Mr. Lawrence or Ms. Wasman voluntarily terminates his or her employment without good reason or if we terminate his or her employment without cause within 18 months after a change in control, we are obligated to make severance payments equal to one year's base annual salary, in the case of Dr. Blight and Ms. Fisher, and nine months base annual salary, in the case of Mr. Lawrence and Ms. Wasman, in each case paid in a lump sum within 30 days after termination, as well as COBRA premium payments for the severance period plus a bonus equal to a prior year's bonus prorated for the number of days worked prior to termination. We are also obligated to pay salary earned but not paid, vacation and sick leave days that have accrued, and reimbursable business expenses incurred through the date of termination. In such event, not less than 50% of the unvested options, stock appreciation rights and restricted or other stock awards shall become immediately and full vested and shall remain exercisable for 18 months following such date. All options that have vested

as of the termination date shall remain exercisable for 90 days following such date. All unvested options, stock appreciation rights awards and stock awards will be cancelled on the date of termination.

Indemnification of Directors and Executive Officers and Limitation on Liability

Our certificate of incorporation currently provides and, upon the closing of this offering, our amended and restated certificate of incorporation will provide, that we shall indemnify our directors and officers to the fullest extent permitted by Delaware law. Upon the closing of this offering, our amended and restated certificate of incorporation will also provide that, with respect to proceedings initiated by our officers and directors, we are only required to indemnify these persons if the proceeding was authorized by our board of directors. Our amended bylaws permit us, by action of our board of directors, to indemnify our other employees and agents to the same extent as we are required to indemnify our officers and directors.

In addition, our certificate of incorporation provides, and upon the closing of this offering our amended and restated certificate of incorporation will provide, that our directors will not be personally liable to us or our stockholders for monetary damages for any 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;

for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

under Section 174 of the Delaware General Corporation Law; or

for any transaction from which the director derives an improper personal benefit.

There is no pending litigation or proceeding involving any of our directors or officers for which indemnification is being sought, nor are we aware of any pending or threatened litigation that may result in claims for indemnification by any director or officer.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Sale of Securities

In March 2001, we consummated a private placement of 10,204,047 shares of Series I preferred stock for an aggregate purchase price of approximately \$39,694,000. Except for Michael Steinmetz, Standish Fleming and Barclay Phillips, who are affiliated with MPM/BB Bioventure, Forward Ventures and Vector Fund Management, respectively, none of our executive officers or directors purchased any shares of the Series I preferred stock.

The following table sets forth, with respect to the Series I preferred stock transaction, the purchase price per share, the aggregate shares purchased and the total investment for MPM/BB Bioventure Group, Forward Ventures and Vector Fund Management:

Investor	Purchase Price per Share of Series I Preferred	Aggregate Shares of Series I Preferred Purchased	Total Investment in Series I Preferred
MPM/BB Bioventure Group	\$3.89	639,359	\$2,487,107
Forward Ventures	\$3.89	1,542,417	\$6,000,002
Vector Fund Management	\$3.89	398,547	\$1,550,348

In May 2003, we consummated a private placement of 112,790,233 shares of Series J preferred stock for an aggregate purchase price of approximately \$55,267,000. Except for Michael Steinmetz, John Friedman, Sandra Panem, Standish Fleming and Barclay Phillips, who are affiliated with MPM/BB Bioventure Group, Easton Hunt Capital Partners, Cross Atlantic Partners, Forward Ventures and Vector Fund Management, respectively, none of our executive officers or directors purchased any shares of the Series J preferred stock.

The following table sets forth, with respect to the Series J preferred stock transaction, the purchase price per share, the aggregate shares purchased and the total investment for each of MPM/BB Bioventure Group, Easton Hunt Capital Partners, Cross Atlantic Partners, Forward Ventures and Vector Fund Management:

Investor	Purchase Price per Share of Series J Preferred	Aggregate Shares of Series J Preferred Purchased	Total Investment in Series J Preferred
MPM/BB Bioventure group	\$ 0.49	15,306,121	\$ 7,500,000
Easton Hunt Capital Partners	\$ 0.49	11,224,490	\$ 5,500,000
Cross Atlantic Partners	\$ 0.49	8,506,256	\$ 4,168,065
Forward Ventures	\$ 0.49	8,163,264	\$ 4,000,000
Vector Fund Management	\$ 0.49	2,040,816	\$ 1,000,000

In March 2004, we consummated a private placement of 1,533,330 shares of Series K preferred stock for an aggregate purchase price of approximately \$11,499,958. Except for John Friedman and Sandra Panem, who are affiliated with Easton Hunt Capital Partners and Cross Atlantic Partners, respectively, none of our executive officers or directors purchased any shares of the Series K preferred stock.

The following table sets forth, with respect to the Series K preferred stock transaction, the purchase price per share, the aggregate shares purchased and the total investment for each of Easton Hunt Capital Partners, Easton Hunt New York and Cross Atlantic Partners:

Investor	Purchase Price per Share of Series K Preferred	Aggregate Shares of Series K Preferred Purchased	Total Investment in Series K Preferred
Easton Hunt Capital Partners	\$ 7.50	100,000	\$ 750,000
Easton Hunt New York	\$ 7.50	100,000	\$ 750,000
Cross Atlantic Partners	\$ 7.50	55,574	\$ 416,805

Board Representation and Registration Rights

Pursuant to an amended and restated registration rights agreement dated as of March 3, 2004, the holders of our Series I Preferred, Series J Preferred and Series K preferred stock have demand and piggy-back registration rights. Pursuant to the terms of this agreement, holders of at least 30% of outstanding "registrable securities" have the right to initiate a demand registration, subject to our ability to delay registration under certain circumstances.

In addition, if we propose to register any of our securities under the Securities Act, including in this offering, certain of our other stockholders are entitled to notice of the registration and to include their registrable shares in the offering. If the managing underwriter determines that marketing factors require a limitation on the number of shares to be underwritten, the managing underwriters may limit or exclude from such underwriting the registrable securities and other securities of these stockholders. If we are so advised by the managing underwriter, then all securities other than registrable securities shall first be excluded from the registration. In no event, however, will the amount of stockholders' securities to be included in the offering be reduced below 30% of the total securities in the offering. We are required to bear substantially all costs incurred in these registrations, other than underwriting discounts and commissions.

Pursuant to the lock-up agreements with the underwriters, holders of greater than 70% of the "registrable securities" under our registration rights agreement have waived their rights to demand registration and participation in this offering under the registration rights agreement until the later of October 30, 2006 or expiration of the lock-up agreements.

Agreements with Former Director

In November, 2004, we entered into an agreement with Mark Pinney, under which we agreed to extend the last date by which Mr. Pinney is entitled to exercise vested stock options previously granted to him to 90 days after he is no longer a director or consultant to us. In addition, he will be entitled to retain certain shares of restricted stock if the vesting requirements for these shares are met within the extended time period. On September 26, 2005, Mr. Pinney was issued 5,000 shares of restricted stock for services rendered as a member of our board of directors from November 1, 2004 through December 31, 2005. Mr. Pinney's shares of restricted stock are otherwise subject to the vesting in the manner described in footnote 3 to the Summary Compensation Table found on page 92.

Agreements with Elan

In September 2003, we entered into the following agreements with Elan, which holds more than 5% of our outstanding common stock:

We entered into a termination and assignment agreement with Elan. Pursuant to the terms of this agreement, we purchased all of the assets of MSRD, our jointly owned subsidiary.

We entered into an amended and restated license agreement with Elan. Pursuant to the terms of the license agreement we were granted an exclusive worldwide license to develop, use and sell

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Fampridine-SR. We are obligated under the license to make milestone and royalty payments to Elan.

We entered into a supply agreement with Elan. Subject to certain exceptions in the supply agreement, Elan will be our exclusive supplier of Fampridine-SR.

In July 2004, we entered into the following agreements with Elan, which holds more than 5% of our outstanding common stock:

We entered into an asset purchase agreement with Elan. Pursuant to the terms of the asset purchase agreement we acquired certain of Elan's rights to Zanaflex Capsules and tablets in the United States.

We entered into a supply agreement with Elan. Subject to certain exceptions in the supply agreement, Elan will be our exclusive supplier of Zanaflex Capsules.

For a more detailed description of these agreements with Elan see "Business Collaborations and License Agreements".

PRINCIPAL STOCKHOLDERS

The following table contains information as of December 31, 2005 about the beneficial ownership of our common stock before and after the consummation of this offering for:

each person, or group of persons, who beneficially owns more than 5% of our capital stock;

each of our directors;

each executive officer named in the summary compensation table; and

all directors and executive officers as a group.

Unless otherwise indicated, the address for each person or entity named below is c/o Acorda Therapeutics, Inc., 15 Skyline Drive, Hawthorne, New York 10532.

Beneficial ownership is determined on the basis of the rules and regulations of the 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 60 days of the date hereof are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. For the purpose of calculating the amounts set forth in the following table, all outstanding shares of preferred stock have been deemed to have been converted into shares of common stock, which conversion will occur upon the closing of this offering. Except as indicated in the footnotes to the following table or pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name. The percentage of beneficial ownership is based on 13,547,022 shares of common stock outstanding on December 31, 2005.

Beneficial Owner	Number of Shares(1)	Percentage of Common Stock Outstanding	
		Before Offering	After Offering(2)
Five Percent Stockholders:			
MPM/BB Bioventure group(3)	1,640,137	12.1%	%
Elan group(4)	997,775	7.4	
Forward Ventures group(5)	873,890	6.5	
Easton Hunt(6)	873,364	6.4	
Cross Atlantic Partners(7)	705,388	5.2	
TVM Life Sciences(8)	705,388	5.2	
MDS/Neuroscience Partners Healthcare(9)	674,295	5.0	
Directors and Executive Officers:			
Ron Cohen, M.D.(10)	887,229	6.5	
Andrew R. Blight, Ph.D.(11)	152,411	1.1	
Mary Fisher(12)	138,749	1.0	
David Lawrence, M.B.A.(13)	74,514	*	
Jane Wasman, J.D.(14)	45,147	*	
John Friedman(15)	873,364	6.4	
Sandra Panem, Ph.D.(16)	711,102	5.2	
Michael Steinmetz, Ph.D.(17)	1,640,137	12.1	
Wise Young, Ph.D., M.D.(18)	22,434	*	
Standish Fleming(19)	873,890	6.5	
Mark Pinney, M.B.A., C.F.A.(20)	174,497	1.3	
Barclay Phillips(21)	543,803	4.0	
Steven Rauscher(22)	8,173	*	
All directors and executive officers as a group (13 persons)(23)	6,145,450	45.4%	%

- * Represents beneficial ownership of less than one percent of the outstanding shares of our common stock.
- (1) Reflects preferred stock on an as converted basis.
- (2) Assumes no shares are purchased in this offering by the listed persons.

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- (3) Includes 1,466,195 shares beneficially owned by BB Bioventures, LP, 155,082 shares beneficially owned by MPM Bioventures Parallel Fund, LP, and 18,860 shares beneficially owned by MPM Asset Management Investors 1998 LLC. The address of MPM/BB BioVentures group is c/o MPM Asset Management, 200 Clarendon St., 54th Floor, Boston, Massachusetts 02116. Dr. Michael Steinmetz is a director of Acorda Therapeutics, Inc. Dr. Steinmetz is a managing member of MPM BioVentures I LLC and MPM Asset Management Investors 1998 LLC and exercises investment and voting power over the shares held by BB BioVentures LP, MPM BioVentures Parallel Fund LP and MPM Asset Management Investors 1998 LLC. MPM BioVentures I LLC is the general partner of MPM BioVentures I LP, which is the general partner of MPM BioVentures Parallel Fund, LP. MPM BioVentures I LLC is a shareholder of BAB BioVentures NV, which is the general partner of BAB BioVentures LP, the General Partner of BB BioVentures LP. Dr. Steinmetz disclaims beneficial ownership of all such shares except to the extent of their respective proportionate pecuniary interests therein.
- (4) Includes 278,339 shares of common stock issuable to EIS, upon conversion of convertible promissory notes and 16,868 shares of common stock issuable upon exercise of a warrant to purchase common stock. The address of Elan group is c/o Elan Pharmaceuticals, 875 Third Avenue, 3rd Floor, New York, NY 10022.
- (5) Includes 805,597 shares beneficially owned by Forward Ventures IV, L.P. and 68,293 shares beneficially owned by Forward Ventures IV B. L.P. The address of Forward Ventures group is c/o Forward Ventures, 9393 Towne Center Drive, Suite 200, San Diego, California 92121. Mr. Fleming is a co-founder and partner of Forward Ventures and exercises investment and voting power over these shares. Mr. Fleming disclaims beneficial ownership of these shares.
- (6) Includes 796,441 shares beneficially owned by Easton Hunt Capital Partners, L.P. and 76,923 shares beneficially owned by Easton Hunt New York. The address of Easton Hunt Capital Partners, L.P. is 767 Third Avenue, New York, New York 10017. Mr. Friedman is a founder and principal of Easton Hunt Capital Partners, L.P. and Easton Hunt New York and exercises investment and voting power over these shares. Mr. Friedman disclaims beneficial ownership of these shares.
- (7) Includes 588,021 shares beneficially owned by Cross Atlantic Partners IV, K/S and 117,367 shares beneficially owned by Nordea Bank Danmark A/S. The address of Cross Atlantic is c/o Cross Atlantic Partners, Inc., 551 Madison Ave., New York, NY 10022. Cross Atlantic Partners has voting and dispositive authority over the shares owned by Nordea Bank. Dr. Panem is a partner of Cross Atlantic Partners IV, K/S and exercises investment and voting power over these shares. Dr. Panem disclaims beneficial ownership of these shares.
- (8) Includes 705,388 shares beneficially owned by TVM V Life Science Ventures GmbH & Co. KG. The address of TVM V Life Science Ventures GmbH & Co. KG is c/o TVM Management Corporation, 101 Arch Street, Boston, MA 02110. Mr. Hoffman is a Managing Limited Partner in TVM V Life Science Ventures GmbH & Co. KG and exercises investment and voting power over these shares. Mr. Hoffman disclaims beneficial ownership of these shares.
- (9) Includes (i) 162,307 shares beneficially owned by MDS Life Sciences Technology Fund Limited Partnership, (ii) 38,375 shares beneficially owned by MDS Life Sciences Technology Fund USA, L.P., (iii) 28,165 shares beneficially owned by MDS Life Sciences Technology Barbados Investment Trust, (iv) 364,312 shares beneficially owned by Neuroscience Partners Limited Partnership, (v) 36,223 shares beneficially owned by MDS Capital Corp. and (vi) 44,915 shares beneficially owned by SC Biotechnology Development Fund. MDS Life Sciences Technology Fund (GP) Inc. is the general partner of MDS Life Sciences Technology Fund Limited Partnership. MDS Capital USA (GP) Inc. has voting and dispositive control over the shares held by MDS Life Sciences Technology Fund USA, L.P. The board of directors of MDS Capital USA (GP) Inc. is composed of Gregory Gubitz, Lori Hoberman, James McClurg and Thomas Willett. John Beale, Gillian Jordan and Gina Staffner, the three trustees of MDS Life Sciences Technology Barbados Investment Trust, may be deemed to share voting and dispositive control over the shares held by MDS Life Sciences Technology Barbados Investment Trust. MDS Neuroscience Partners Inc. has voting and dispositive control over the shares held by Neuroscience Partners Limited Partnership; Maurice Forget, Gregory Gubitz, Michel Laguex, Rand Lomas and Reginald MacDonald are the directors of MDS Neuroscience Partners Inc. The board of directors of MDS Capital Corp., which is composed of Peter Brent, Michael Burns, Peter de Auer, James Garner, Richard Johnston, James Osborne, Anthony Pullen and Peter van der Velden, exercise voting and dispositive control over the shares held by MDS Capital Corp. The address of MDS Life Sciences Technology Fund Limited Partnership is 100 International Blvd., Toronto, Ontario M9W 6J6. The address of MDS Life Sciences Technology Fund USA, L.P. is c/o MDS Capital USA (GP) Inc., 621 Rose Street, Lincoln, Nebraska 68502. The address of MDS Life Sciences Technology Barbados Investment Trust is 2nd Floor, CGI Tower, Warrens, St. Michael, Barbados. The address of Neuroscience Partners Limited Partnership is 100 International Blvd., Toronto, Ontario M9W 6J6. The address of MDS Capital Corp. is 100 International Blvd., Toronto, Ontario M9W 6J6. The address of SC Biotechnology Development Fund is One Capital Place, P.O. Box 897, GT Grand Cayman, Cayman Islands.
- (10) Includes 96,153 shares of common stock, 11,440 shares of preferred stock, 665,720 shares of common stock issuable upon exercise of stock options and 113,916 restricted shares.
- (11) Includes 1,602 shares of common stock, 108,203 shares of common stock issuable upon exercise of stock options and 42,606 restricted shares.
- (12) Includes 69,963 shares of common stock issuable upon exercise of stock options and 68,786 restricted shares.
- (13)

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Includes 46,414 shares of common stock issuable upon exercise of stock options and 28,100 restricted shares.

(14)

Includes 11,193 shares of common stock issuable upon exercise of stock options and 33,954 restricted shares.

(15)

Includes 796,442 shares beneficially owned by Easton Hunt Capital Partners, L.P. and 76,923 shares beneficially owned by Easton Hunt New York. Mr. Friedman is a founder and principal of Easton Hunt Capital Partners, L.P. and Easton Hunt New York and exercises investment and voting power over these shares. Mr. Friedman disclaims beneficial ownership of these shares.

(16)

Includes 4,084 shares of common stock issuable upon exercise of stock options, 1,630 shares of Series H Preferred, and 588,021 shares beneficially owned by Cross Atlantic Partners IV, K/S and 117,367 shares beneficially owned by Nordea Bank Danmark A/S. Cross Atlantic Partners has voting and dispositive authority over the shares owned by Nordea Bank. Dr. Panem is a partner of Cross Atlantic Partners and exercises investment and voting power over these shares. Dr. Panem disclaims beneficial ownership of these shares.

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- (17) Includes 1,466,195 shares beneficially owned by BB Bioventures, LP, 155,082 shares beneficially owned by MPM Bioventures Parallel Fund, LP, and 18,860 shares beneficially owned by MPM Asset Management Investors 1998 LLC. The address of MPM/BB BioVentures group is c/o MPM Asset Management, 200 Clarendon St., 54th Floor, Boston, Massachusetts 02116. Dr. Michael Steinmetz is a director of Acorda Therapeutics, Inc. Dr. Steinmetz is a managing member of MPM BioVentures I LLC and MPM Asset Management Investors 1998 LLC and exercises investment and voting power over the shares held by BB BioVentures LP, MPM BioVentures Parallel Fund LP and MPM Asset Management Investors 1998 LLC. MPM BioVentures I LLC is the general partner of MPM BioVentures I LP, which is the general partner of MPM BioVentures Parallel Fund, LP. MPM BioVentures I LLC is a shareholder of BAB BioVentures NV, which is the general partner of BAB BioVentures LP, the General Partner of BB BioVentures LP. Dr. Steinmetz disclaims beneficial ownership of all such shares except to the extent of their respective proportionate pecuniary interests therein.
- (18) Includes 5,768 shares of common stock issuable upon exercise of stock options, 3,846 restricted shares and 12,820 shares of common stock.
- (19) Includes 805,597 shares beneficially owned by Forward Ventures IV, L.P. and 68,293 shares beneficially owned by Forward Ventures IV B. L.P. The address of Forward Ventures group is c/o Forward Ventures, 9393 Towne Center Drive, Suite 200, San Diego, California 92121. Mr. Fleming is a co-founder and partner of Forward Ventures and exercises investment and voting power over these shares. Mr. Fleming disclaims beneficial ownership of these shares.
- (20) Includes 144,810 shares of common stock issuable upon exercise of stock options, 15,714 restricted shares and 13,973 shares of common stock.
- (21) Includes 135,947 shares beneficially owned by Vector Later-Stage Equity Fund II, L.P. and 407,856 shares beneficially owned by Vector Later-Stage Equity Fund II (QP), L.P. Mr. Phillips is a Managing Director of Vector Fund Management and exercises investment and voting power over these shares. Mr. Phillips disclaims beneficial ownership of these shares. The address of Vector Fund Management is 1751 Lake Cook Road, Suite 350, Deerfield, IL 60015.
- (22) Includes 8,173 shares of common stock issuable upon exercise of stock options.
- (23) Includes 1,064,328 shares of common stock issuable upon exercise of stock options.

DESCRIPTION OF CAPITAL STOCK

The following is a description of the material terms of our amended and restated certificate of incorporation and bylaws as each is anticipated to be in effect immediately following the closing of this offering and the filing of our amended and restated certificate of incorporation. We refer you to our amended and restated certificate of incorporation and bylaws, copies of which will be filed as exhibits to the registration statement of which this prospectus forms a part.

Authorized Capitalization

On September 18, 2005, our Board of Directors approved a 1-for-1.3 reverse stock split, which will become effective prior to the effective date of this registration statement. All references to common stock, common shares outstanding, average number of common shares outstanding, per share amounts, options and warrants and Elan notes payable in this registration statement have been restated to reflect the 1-for-1.3 common stock reverse split on a retroactive basis.

As of September 30, 2005, our authorized capital stock consisted of (i) 260,000,000 shares of common stock, with a par value of \$0.001 per share, of which 208,743 shares were issued and outstanding, and (ii) 141,754,865 shares of preferred stock, with a par value of \$0.001 per share, of which 106,472,984 shares are issued and outstanding. Immediately following the closing of this offering and the filing of our amended and restated certificate of incorporation, our authorized capital stock will consist of 80,000,000 shares of common stock, with a par value of \$0.001 per share and 20,000,000 shares of preferred stock, with a par value of \$0.001 per share. As of the consummation of this offering, all of the outstanding shares of preferred stock will automatically convert into 13,338,279 shares of common stock. After giving effect to this conversion, we expect there to be _____ shares of common stock issued and outstanding (or _____ shares of common stock if the underwriter exercises its over-allotment option in full), and no shares of preferred stock issued and outstanding.

Common Stock

Voting Rights

Holders of common stock are entitled to one vote per share on all matters submitted for action by the stockholders. The holders of common stock do not have cumulative voting rights in the election of directors. Accordingly, the holders of more than 50% of the shares of common stock can, if they choose to do so, elect all the directors. In such event, the holders of the remaining shares of common stock will not be able to elect any directors.

Dividend Rights

Holders of common stock are entitled to receive ratably dividends if, as and when dividends are declared from time to time by our board of directors out of funds legally available for that purpose, after payment of dividends required to be paid on outstanding preferred stock, if any. Our secured term loan imposes restrictions on our ability to declare dividends on our common stock.

Liquidation Rights

Upon our liquidation, dissolution or winding up, any business combination or a sale or disposition of all or substantially all of our assets, the holders of common stock are entitled to receive ratably the assets available for distribution to the stockholders after payment of liabilities and accumulated and unpaid dividends and liquidation preferences on outstanding preferred stock, if any.

Other Matters

Holders of common stock have no preemptive rights and are not subject to further calls or assessment by us. There are no redemption or sinking fund provisions applicable to our common stock. All outstanding shares of our common stock, including the shares of common stock offered in this offering, are fully paid and non-assessable.

Preferred Stock

Our amended and restated certificate of incorporation authorizes our board of directors to establish one or more series of up to 20,000,000 shares of preferred stock. Unless required by law or by any stock exchange on which our common stock is listed, the authorized shares of preferred stock will be available for issuance without further action by our stockholders. Our board of directors is able to determine, with respect to any series of preferred stock, the terms and rights of that series including:

the designation of the series;

the number of shares of the series, which our board may, except where otherwise provided in the preferred stock designation, increase or decrease, but not below the number of shares then outstanding;

whether dividends, if any, will be cumulative or non-cumulative and the dividend rate of the series;

the dates at which dividends, if any, will be payable;

the redemption rights and price or prices, if any, for shares of the series;

the amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of our company;

whether the shares of the series will be convertible into shares of any other class or series, or any other security, of our company or any other corporation, and, if so, the specification of the other class or series or other security, the conversion price or prices or rate or rates, any rate adjustments, the date or dates as of which the shares will be convertible and all other terms and conditions upon which the conversion may be made;

any other preferences and relative participating, optional or other special rights, and any qualifications, limitations or restrictions on such rights; and

the voting rights, if any, of the holders of the series.

Restricted Stock

As of December 31, 2005, we had 755,083 shares of restricted stock outstanding.

Warrants

As of December 31, 2005, we had outstanding warrants to purchase 50,200 shares of common stock at a weighted average exercise price of \$16.54 per share.

Stock Options

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As of December 31, 2005, 1,767,904 shares of common stock are issuable upon the exercise of outstanding stock options to purchase our common stock. After this offering, we intend to file a registration statement on Form S-8 to register the shares of common stock reserved for issuance upon exercise of outstanding options. The registration statement is expected to be filed and become effective approximately six months after the closing of this offering. Accordingly, shares registered under the

registration statement will be available for sale in the open market without restriction, except with respect to Rule 144 volume limitations that apply to our affiliates.

Convertible Promissory Notes

In January 1997, EIS loaned us an aggregate of \$7.5 million pursuant to two promissory notes that are convertible into 278,339 shares of our common stock.

Registration Rights

Pursuant to an amended and restated registration rights agreement between us and certain of our stockholders dated as of March 3, 2004, holders of an aggregate of 13,338,279 shares of our common stock have demand and piggy-back registration rights. The demand rights may be exercised by holders of 30% of the registrable securities at any time after completion of this offering. Additionally, if at any time we propose to register our common stock under the Securities Act for our own account or the account of any of our stockholders or both, the stockholders party to the registration rights agreement are entitled to notice of the registration and to include registrable shares in the offering, provided that the underwriters of that offering do not limit the number of shares included in the registration. In no event, however, will the amount of stockholders' securities to be included in the offering be reduced below 30% of the total securities in the offering. We are required to bear substantially all costs incurred in these registrations, other than underwriting discounts and commissions. The registration rights described above could result in substantial future expenses for us and adversely affect any future equity offering. Pursuant to the lock-up agreements with the underwriters, holders of greater than 70% of the "registrable securities" under our registration rights agreement have waived their rights to demand registration and participation in this offering under the registration rights agreement until the later of October 30, 2006 and expiration of the lock-up agreements. In addition, holders of the requisite amount of registrable securities have waived their rights to registration through the completion of this offering.

Authorized but Unissued Capital Stock

The Delaware General Corporation Law does not require stockholder approval for any issuance of authorized shares. These additional shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

One of the effects of the existence of unissued and unreserved common stock or preferred stock may be to enable our board of directors to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of our company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive the stockholders of opportunities to sell their shares of common stock at prices higher than prevailing market prices.

Delaware Anti-Takeover Statute

We are subject to Section 203 of the Delaware General Corporation Law. Subject to specific exceptions, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

the "business combination," or the transaction in which the stockholder became an "interested stockholder" is approved by the board of directors prior to the date the "interested stockholder" attained that status;

upon closing of the transaction that resulted in the 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 voting stock outstanding and not outstanding, voting stock owned by the interested stockholder, those shares owned by persons who are directors and also officers, and employee stock plans in which employee participants do not have the right to determine confidentiality whether shares held subject to the plan will be tendered in a tender or exchange offer); or

on or subsequent to the date a person became an "interested stockholder," the "business combination" is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the "interested stockholder."

"Business combinations" include mergers, asset sales and other transactions resulting in a financial benefit to the "interested stockholder." Subject to various exceptions, an "interested stockholder" is a person who, together with his or her affiliates and associates, owns, or within three years did own, 15% or more of the corporation's outstanding voting stock. These restrictions could prohibit or delay the accomplishment of mergers or other takeover or change in control attempts with respect to us and, therefore, may discourage attempts to acquire us.

Transfer Agent and Registrar

is the transfer agent and registrar for our common stock.

Listing

We will apply to list our common stock on The Nasdaq National Market, subject to official notice of issuance, under the symbol "ACOR."

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for our common stock. Upon completion of this offering, we will have outstanding an aggregate of _____ million shares of common stock, and if the underwriters exercise their over-allotment option in full, we will have outstanding an aggregate of _____ million shares of common stock. All of the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except that any shares purchased in the offering by our affiliates, as that term is defined in Rule 144 of the Securities Act, may generally only be sold in compliance with the limitations of Rule 144 described below. The remaining 913,155 million shares of our common stock outstanding will be "restricted securities," as that term is defined under 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 144 or 144(k) under the Securities Act, which are summarized below.

Sales of substantial amounts of our common stock in the public market could put downward pressure on the market price of our common stock. We cannot estimate the number of shares of common stock that may be sold by third parties in the future because such sales will depend on market prices, the circumstances of sellers and other factors.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person or persons whose shares are aggregated, who has beneficially owned restricted shares for at least one year, including persons who may be deemed to be our "affiliates," would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

1% of the then outstanding shares of common stock, which is approximately _____ shares as of the date of this prospectus;
and

the average weekly trading volume on The Nasdaq National Market during the four calendar weeks preceding each such sale, subject to restrictions.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

In addition, under Rule 144(k), a person who is not and has not been our affiliate at any time during the 90 days preceding a sale and at least two years have elapsed since the shares were acquired from us or any affiliate of ours, is entitled to sell those shares immediately after the consummation of this offering without regard to the manner of sale, public information, volume limitation or notice requirements of Rule 144.

Rule 701

Generally, an employee, officer, director or consultant who purchased shares of our common stock before the effective date of the registration statement of which this prospectus is a part, or who holds options as of that date, pursuant to a written compensatory plan or contract, may rely on the resale provisions of Rule 701 under the Securities Act. Under Rule 701, these persons who are not our affiliates may generally sell their eligible securities, commencing 90 days after the effective date of the registration statement of which this prospectus is a part, without having to comply with the public information, holding period, volume limitation or notice provisions of Rule 144.

Sale of Restricted Shares

Based on the number of shares outstanding as of December 31, 2005, 20,611,259 shares of our common stock will become eligible for sale pursuant to Rule 144 or Rule 701 without registration approximately as follows, assuming conversion of our preferred stock upon consummation of this offering and no exercise of outstanding options and warrants, and assuming no shares are released from the lock-up agreements described below prior to 180 days after the date of this prospectus:

19,698,104 shares of common stock will be eligible for sale in the public market under Rule 144, 144(k) or 701, immediately upon expiration of the 180-day lock-up period described below, subject to the volume, manner of sale and other limitations under those rules; and

the remaining 913,155 shares of common stock will become eligible under Rule 144 for sale in the public market from time to time after the 180-day lock-up period described below upon the expiration of their respective holding periods.

Rules 144, 144(k) and Rule 701 do not supersede the contractual obligations of our security holders set forth in the lock-up agreements described below.

Lock-up Agreements

We, our directors and executive officers and substantially all of our stockholders and option holders have entered into lock-up agreements with the underwriters. Under these agreements, subject to exceptions, we may not issue any new shares of common stock, and those holders of stock and options may not, directly or indirectly, sell, offer, contract or grant any option to sell, pledge, transfer or otherwise dispose of or hedge any common securities convertible into or exchangeable for shares of common stock, or publicly announce the intention to do any of the foregoing, without the prior written consent of Banc of America Securities LLC, for a period of 180 days from the date of this prospectus related to this offering, subject to a potential extension of up to an additional 34 days under certain circumstances. This consent may be given at any time without public notice. In addition, during this period, we have also agreed not to file any registration statement for any shares of our common stock without the prior written consent of Banc of America Securities LLC. Pursuant to the lock-up agreements holders of greater than 70% of the "registrable securities" under our registration rights agreement have also agreed not to make any demand for, or exercise any right to registration of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock, without the prior written consent of Banc of America Securities LLC.

Registration Rights

Following the completion of this offering, holders of an aggregate of 13,338,279 shares of our common stock will be entitled to certain rights with respect to the registration of their shares under the Securities Act. See "Description of Capital Stock Registration Rights." Registration of their shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration.

CERTAIN UNITED STATES FEDERAL INCOME AND ESTATE TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following discussion is a summary of certain U.S. federal income and estate tax consequences of the purchase, ownership and disposition of our common stock as of the date hereof. Except where noted, this summary deals only with common stock that is held as a capital asset by a non-U.S. holder.

A "non-U.S. holder" means a beneficial owner of our common stock (other than a partnership) that is not, for U.S. federal income tax purposes, any of the following:

an individual citizen or resident of the United States;

a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

This summary is based upon provisions of the Code and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income and estate tax consequences different from those summarized below. This summary does not address all aspects of U.S. federal income and estate taxes and does not deal with foreign, state, local or other tax considerations that may be relevant to non-U.S. holders in light of their personal circumstances. In addition, it does not represent a description of the U.S. federal income and estate tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws (including if you are a U.S. expatriate, "controlled foreign corporation," "passive foreign investment company," corporation that accumulates earnings to avoid U.S. federal income tax, a tax exempt organization, a bank, an insurance company, a dealer in securities, a person that holds our common stock as part of a "straddle," "hedge," "conversion transaction," or other integrated transaction, a pass through entity or an investor in a pass-through entity). We cannot assure you that a change in law will not alter significantly the tax considerations that we describe in this summary.

If a partnership holds our common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common stock, you should consult your tax advisors. In this summary, "partnership" includes any entity treated as a partnership and "partner" includes any person treated as a partner for U.S. federal income tax purposes.

If you are considering the purchase of our common stock, you should consult your own tax advisors concerning the particular U.S. federal income and estate tax consequences to you of the ownership of our common stock, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

Dividends

We do not currently anticipate paying dividends on our common stock. See "Dividend Policy" above. If we were to pay dividends in the future, dividends paid to a non-U.S. holder of our common stock generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the non-U.S. holder within the United States (and, where a tax treaty applies, are attributable to a U.S. permanent establishment of the non-U.S.

holder) are not subject to the withholding tax, provided certain certification and disclosure requirements are satisfied. Instead, such dividends are subject to U.S. federal income tax on a net income basis in the same manner as if the non-U.S. holder were a U.S. person as defined under the Code. Any such effectively connected dividends received by a foreign corporation may be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A non-U.S. holder of our common stock who wishes to claim the benefit of an applicable treaty rate for dividends will be required to complete Internal Revenue Service Form W-8BEN (or other applicable form) and certify under penalty of perjury that such holder is eligible for benefits under the applicable treaty. Special certification and other requirements apply to certain non-U.S. holders that are pass-through entities rather than corporations or individuals. In addition, Treasury regulations provide special procedures for payments of dividends through certain intermediaries.

A non-U.S. holder of our common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

Gain on Disposition of Common Stock

Any gain realized on the disposition of our common stock generally will not be subject to U.S. federal income tax 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, is attributable to a U.S. permanent establishment of the non-U.S. holder);

the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or

we are or have been a "United States real property holding corporation" or USRPHC for U.S. federal income tax purposes and certain other conditions are met.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a U.S. person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

We believe we are not and do not anticipate becoming a USRPHC for U.S. federal income tax purposes, however no assurances can be provided that we will not be a USRPHC in the future.

U.S. Federal Estate Tax

Common stock owned or treated as owned by an individual who is not a citizen or resident of the United States, as specifically defined for U.S. estate tax purposes, at the time of death will be included in such holder'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.

Information Reporting and Backup Withholding

We must report annually to the Internal Revenue Service and to each non-U.S. holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty.

A non-U.S. holder will be subject to backup withholding for dividends paid to such holder unless such holder certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that such holder is a U.S. person as defined under the Code), or such holder otherwise establishes an exemption.

Information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale of our common stock within the United States or conducted through certain U.S.-related financial intermediaries, unless the beneficial owner certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a U.S. person as defined under the Code) or such owner otherwise establishes an exemption. Certain shareholders, including all corporations, are exempt from the backup withholding rules.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a non-U.S. holder's U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

UNDERWRITING

We are offering the shares of common stock described in this prospectus through a number of underwriters. Banc of America Securities LLC, Lazard Capital Markets LLC, Piper Jaffray & Co. and SG Cowen & Co., LLC, are the representatives of the underwriters. We have entered into a firm commitment underwriting agreement with the representatives. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has agreed to purchase, the number of shares of common stock listed next to its name in the following table:

Underwriter	Number of Shares
Banc of America Securities LLC	
Lazard Capital Markets LLC	
Piper Jaffray & Co.	
SG Cowen & Co., LLC	
Total	

The underwriting agreement is subject to a number of terms and conditions and provides that the underwriters must buy all of the shares if they buy any of them. The underwriters will sell the shares to the public when and if the underwriters buy the shares from us.

The underwriters initially will offer the shares to the public at the price specified on the cover page of this prospectus. The underwriters may allow a concession of not more than \$ _____ per share to selected dealers. The underwriters may also allow, and those dealers may reallow, a concession of not more than \$ _____ per share to some other dealers. If all the shares are not sold at the public offering price, the underwriters may change the public offering price and the other selling terms. Our common stock is offered subject to a number of conditions, including:

receipt and acceptance of the common stock by the underwriters; and

the underwriters' right to reject orders in whole or in part.

Over-Allotment Options. We have granted the underwriters an over-allotment option to buy up to _____ additional shares of our common stock at the same price per share as they are paying for the shares shown in the table below. These additional shares would cover sales of shares by the underwriters that exceed the total number of shares shown in the table above. The underwriters may exercise this option at any time within 30 days after the date of this prospectus. To the extent that the underwriters exercise this option, each underwriter will purchase additional shares from us in approximately the same proportion as it purchased the shares shown in the table above. If purchased, the additional shares will be sold by the underwriters on the same terms as those on which the other shares are sold.

Discount and Commissions. The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us. These amounts are shown assuming no exercise and full exercise of the underwriters' option to purchase additional shares.

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We estimate that the expenses of the offering to be paid by us, not including the underwriting discounts and commissions, will be approximately \$.

	Paid by Us	
	No Exercise	Full Exercise
Per share	\$	\$
Total	\$	\$

Listing. We will apply to have our common stock included for quotation on the NASDAQ National Market under the symbol "ACOR."

Stabilization. In connection with this offering, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common stock, including:

stabilizing transactions;

short sales;

syndicate covering transactions;

imposition of penalty bids; and

purchases to cover positions created by short sales.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while this offering is in progress. Stabilizing transactions may include making short sales of our common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock from us or in the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' over-allotment option referred to above, or may be "naked" shorts, which are short positions in excess of that amount. Syndicate covering transactions involve purchases of our common stock in the open market after the distribution has been completed in order to cover syndicate short positions.

The underwriters may close out any covered short position either by exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares pursuant to the over-allotment option.

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 common stock in the open market that could adversely affect investors who purchased in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The representatives also may impose a penalty bid on underwriters and dealers participating in the offering. This means that the representatives may reclaim from any syndicate members or other dealers participating in the offering the underwriting discounts on shares sold by them and purchased by the representatives in stabilizing or short covering transactions.

These activities may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result of these activities, the price of our common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any

time. The underwriters may carry out these transactions on the Nasdaq National Market, in the over-the-counter market or otherwise.

The underwriters have informed us that they do not expect to make sales to accounts over which they exercise discretionary authority in excess of 5% of the shares of common stock being offered.

IPO Pricing. Prior to this offering, there has been no public market for our common stock. The initial public offering price will be negotiated between us and the representatives of the underwriters. Among the factors to be considered in these negotiations are:

the history of, and prospects for, our company and the industry in which we compete;

our past and present financial performance;

an assessment of our management;

the present state of our development;

the prospects for our future earnings;

the prevailing conditions of the applicable United States securities market at the time of this offering;

market valuations of publicly traded companies that we and the representatives of the underwriters believe to be comparable to us; and

other factors deemed relevant.

Lock-up Agreement. We, our executive officers and directors and substantially all of our stockholders have entered into or will, prior to the completion of this offering, enter into lock-up agreements with the underwriters. Under these agreements, subject to exceptions, we may not issue any new shares of common stock, and those holders of stock and options may not, directly or indirectly, sell, offer, contract or grant any option to sell, pledge, transfer or otherwise dispose of or hedge any common securities convertible into or exchangeable for shares of common stock, or publicly announce the intention to do any of the foregoing, without the prior written consent of Banc of America Securities LLC for a period of 180 days from the date of this prospectus related to this offering, subject to a potential extension of up to an additional 34 days under certain circumstances. This consent may be given at any time without public notice. In addition, during this period, we have also agreed not to file any registration statement for any shares of our common stock without the prior written consent of Banc of America Securities LLC. Pursuant to the lock-up agreements holders of greater than 70% of the "registrable securities" under our registration rights agreement have also agreed not to make any demand for, or exercise any right to registration of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock, without the prior written consent of Banc of America Securities LLC.

Indemnification. We will indemnify the underwriters against some liabilities, including liabilities under the Securities Act. If we are unable to provide this indemnification, we will contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters and their affiliates have provided, and may in the future provide, various investment banking, commercial banking and other financial services for us.

Compliance with Non-U.S. Laws and Regulations

Each underwriter intends to comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers shares of our common stock or has in its possession or distributes the prospectus.

European Economic Area

In relation to each Member State of the European Economic Area which 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 to the public may not be made in that Relevant Member State prior to the publication of a prospectus in relation to shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive

For the purposes of this provision, the expression an "offer of shares to the public" in relation to any shares 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 the shares, as the same 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 includes any relevant implementing measure in each Relevant Member State.

France

No prospectus (including any amendment, supplement or replacement thereto) has been prepared in connection with the offering of the shares that has been approved by the *Autorité des marchés financiers* or by the competent authority of another State that is a contracting party to the Agreement on the European Economic Area and notified to the *Autorité des marchés financiers*; no shares have been offered or sold and will be offered or sold, directly or indirectly, to the public in France except to permitted investors ("Permitted Investors") consisting of persons licensed to provide the investment service of portfolio management for the account of third parties, qualified investors (*investisseurs qualifiés*) acting for their own account and/or corporate investors meeting one of the four criteria provided in Article 1 of Decree N° 2004-1019 of September 28, 2004 and belonging to a limited circle of investors (*cercle restreint d'investisseurs*) acting for their own account, with "qualified investors" and "limited circle of investors" having the meaning ascribed to them in Article L. 411-2 of the French *Code Monétaire et Financier* and applicable regulations thereunder; none of the prospectus supplement, the accompanying prospectus, or any other materials related to the offering or information contained therein relating to the shares has been released, issued or distributed to the public in France except to Permitted Investors; and the direct or indirect resale to the public in France of any shares acquired by any Permitted Investors may be made only as provided by articles L. 412-1 and L. 621-8 of the French *Code Monétaire et Financier* and applicable regulations thereunder.

United Kingdom

Each underwriter acknowledges and agrees that:

it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any shares other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the shares would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the issuer;

it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the shares in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) 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 (all such persons together being referred to as "relevant persons"). The shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Italy

Each underwriter acknowledges and agrees that the offering of the shares has not been cleared by the Italian Securities Exchange Commission (Commissione Nazionale per le Società e la Borsa, the "CONSOB") pursuant to Italian securities legislation and, accordingly, acknowledges and agrees that the shares may not and will not be offered, sold or delivered, nor may or will copies of the prospectus or any other documents relating to the shares or the prospectus be distributed in Italy other than to professional investors (*investitori professionali*), as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of July 1, 1998, as amended ("Regulation No. 11522") or pursuant to another exemption from the requirements of Articles 94 and seq. of Legislative Decree No. 58 of February 24, 1998 (the "Italian Finance Law") and CONSOB Regulation No. 11971 of May 14, 1999 ("Regulation No. 11971").

Each underwriter acknowledges and agrees that any offer, sale or delivery of the shares or distribution of copies of the prospectus or any other document relating to the shares or the prospectus in Italy may and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be:

made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Legislative Decree No. 385 of September 1, 1993, as amended (the "Italian Banking Law"), Legislative Decree No. 58 of February 24, 1998, as amended, CONSOB Regulation No. 11522 of July 1, 1998, and any other applicable laws and regulations;

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in compliance with Article 129 of the Italian Banking Law and the implementing guidelines of the Bank of Italy; and

in compliance with any other applicable notification requirement or limitation which may be imposed upon the offer of shares by CONSOB or the Bank of Italy.

Any investor purchasing the shares in this offering is solely responsible for ensuring that any offer or resale of the shares it purchased in this offering occurs in compliance with applicable laws and regulations.

This prospectus and the information contained herein are intended only for the use of its recipient and are not to be distributed to any third party resident or located in Italy for any reason. No person resident or located in Italy other than the original recipients of this document may rely on it or its content.

In addition to the above (which shall continue to apply to the extent not inconsistent with the implementing measures of the Prospectus Directive in Italy), after the implementation of the Prospectus Directive in Italy, the restrictions, acknowledgments and agreements set out under the heading "European Economic Area" above shall apply to Italy.

LEGAL MATTERS

The validity of the issuance of the shares of common stock offered hereby will be passed upon for us by Covington & Burling, New York, New York. Shearman & Sterling LLP, New York, New York, will pass upon certain legal matters in connection with this offering for the underwriters.

EXPERTS

Our consolidated financial statements as of December 31, 2004 and 2003 and for the year ended December 31, 2004, the six month period ended December 31, 2003, and years ended June 30, 2003 and 2002 have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the common stock offered by this prospectus. This prospectus, which is a part of the registration statement, does not include all of the information included in the registration statement. For further information with respect to us and our common stock, reference is made to the registration statement.

We are not currently subject to the informational requirements of the Securities Exchange Act of 1934, or the Exchange Act. As a result of this offering, we will become subject to the informational requirements of the Exchange Act, and, in accordance therewith, will file reports and other information with the SEC. The registration statement, such reports and other information can be inspected and copied at the Public Reference Room of the SEC located at 100 F Street, N.E., Washington D.C. 20549. Copies of such materials, including copies of all or any portion of the registration statement, can be obtained from the Public Reference Room of the SEC at prescribed rates. You can call the SEC at 1-800-SEC-0330 to obtain information on the operation of the Public Reference Room. Such materials may also be accessed electronically by means of the SEC's home page on the Internet (www.sec.gov).

ACORDA THERAPEUTICS, INC. AND SUBSIDIARY

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THE ACCOMPANYING FINANCIAL STATEMENTS INCLUDE THE EFFECTS OF A REVERSE STOCK SPLIT OF THE COMPANY'S COMMON STOCK APPROVED BY THE COMPANY'S BOARD OF DIRECTORS WHICH WILL BECOME EFFECTIVE PRIOR TO THE EFFECTIVE DATE OF THE FORM S-1 REGISTRATION STATEMENT FILED IN CONNECTION WITH THE COMPANY'S INITIAL PUBLIC OFFERING. THE ABOVE OPINION IS THE FORM WHICH WILL BE SIGNED BY KPMG LLP UPON CONSUMMATION OF THE REVERSE STOCK SPLIT, WHICH IS DESCRIBED IN NOTE (16) OF THE NOTES TO THE FINANCIAL STATEMENTS, AND ASSUMING THAT, FROM OCTOBER 3, 2005 TO THE DATE OF SUCH REVERSE STOCK SPLIT, NO OTHER EVENTS HAVE OCCURRED THAT WOULD AFFECT THE ACCOMPANYING FINANCIAL STATEMENTS AND NOTES THERETO, EXCEPT AS DISCLOSED IN NOTES TO THE FINANCIAL STATEMENTS.

/s/ KPMG LLP

October 3, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Acorda Therapeutics, Inc.:

We have audited the accompanying consolidated balance sheets of Acorda Therapeutics, Inc. and subsidiary (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' (deficit), and cash flows for the year ended December 31, 2004, the six-month period ended December 31, 2003, and years ended June 30, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the year ended December 31, 2004, the six-month period ended December 31, 2003, and years ended June 30, 2003 and 2002, in conformity with U.S. generally accepted accounting principles.

Short Hills, New Jersey
October 3, 2005, except for note 16
(as to the effects of a reverse stock split
which is as of January , 2006)

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ACORDA THERAPEUTICS, INC. AND SUBSIDIARY

Consolidated Balance Sheets

	December 31,		September 30,
	2003	2004	2005
			(unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$ 8,965,173	\$ 11,729,112	\$ 3,580,613
Restricted cash	254,078	256,568	261,037
Short-term investments	32,250,263	9,396,677	5,160,275
Trade accounts receivable, net		1,922,838	729,811
Grant receivable	171,181	141,815	90,530
Prepaid expenses	920,084	827,891	1,460,959
Finished goods inventory held by the Company		192,452	3,852,435
Finished goods inventory held by others		230,748	1,101,183
Other current assets	194,962	241,251	1,154,966
	<u>42,755,741</u>	<u>24,939,352</u>	<u>17,391,809</u>
Total current assets	42,755,741	24,939,352	17,391,809
Property and equipment, net of accumulated depreciation	3,093,154	2,547,014	1,905,063
Intangible Assets, net of accumulated amortization		3,386,050	6,137,023
Other assets	111,516	109,234	109,235
	<u>45,960,411</u>	<u>30,981,650</u>	<u>25,543,130</u>
Total assets	\$ 45,960,411	\$ 30,981,650	\$ 25,543,130
Liabilities, Mandatorily Redeemable Convertible Preferred Stock and Stockholders' (Deficit)			
Current liabilities:			
Accounts payable	\$ 2,354,131	\$ 1,929,394	1,810,123
Accounts payable to related party	305,088		
Accrued expenses and other current liabilities	4,349,828	2,890,218	7,825,869
Accrued product returns		4,081,910	1,966,343
Deferred grant revenue	48,043		
Deferred product revenue Zanaflex tablets		6,668,491	10,685,860
Deferred product revenue Zanaflex Capsules			4,959,993
Current portion of notes payable	323,971	301,938	2,346,985
	<u>7,381,061</u>	<u>15,871,951</u>	<u>29,595,173</u>
Total current liabilities	7,381,061	15,871,951	29,595,173
Long-term portion of notes payable	446,592	144,654	3,533,601
Other long-term liabilities		750,000	
Warrant liability			388,135
Long-term convertible notes payable principal amount, plus accrued interest less unamortized debt discount of \$329,374, \$175,312 and \$82,818 as of December 31, 2003 and 2004 and September 30, 2005 (unaudited) respectively	8,091,412	8,421,996	8,694,877
Mandatorily Redeemable Convertible Preferred Stock:			
Series E convertible preferred stock \$0.001 par value. Authorized, issued, and outstanding 7,472,612 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited) (Redemption and liquidation value of \$20,176,052 as of December 31, 2004)	2,449,656	6,396,021	9,347,741
Series I convertible preferred stock \$0.001 par value. Authorized, issued and outstanding, 10,204,047 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited) (Redemption and liquidation value of \$39,693,743 as of December 31, 2004)	4,897,447	12,644,040	18,438,141
Series J convertible preferred stock \$0.001 par value. Authorized, 112,790,246 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited); issued, and outstanding 112,790,233 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited) (Redemption and liquidation value of \$64,109,973 as of December 31, 2004)	22,824,094	35,100,482	44,291,812

December 31,

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Series K convertible preferred stock, \$0.001 par value. Authorized, 1,533,330 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited); issued and outstanding 1,533,327 shares at December 31, 2004 and September 30, 2005 (unaudited) (Redemption and liquidation value of \$12,720,513 at December 31, 2004)		12,223,211	12,922,497
Commitments and contingencies			
Stockholders' (deficit):			
Series A convertible preferred stock, \$0.001 par value. Authorized 1,646,068 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited); issued and outstanding 1,306,068 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited) (liquidation value of \$1,306,068 as of December 31, 2004)		1,306	1,306
Series B convertible preferred stock, \$0.001 par value. Authorized 2,250,000 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited); issued and outstanding 900,000 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited) (liquidation value of \$1,800,000 as of December 31, 2004)		900	900
Series C convertible preferred stock, \$0.001 par value. Authorized, issued, and outstanding 333,333 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited) (liquidation value of \$999,999 as of December 31, 2004)		333	333
Series D convertible preferred stock, \$0.001 par value. Authorized 400,000 shares at December 31, 2003 and 2004 and September 30, 2005 (unaudited); issued and outstanding none			
Series F convertible preferred stock, \$0.001 par value. Authorized, issued, and outstanding 2,300,000 shares at		2,300	2,300

December 31, 2003 and
2004 and September 30,
2005 (unaudited)
(liquidation value of
\$11,999,100 as of
December 31, 2004)

Series G convertible
preferred stock, \$0.001
par value. Authorized
1,250,000 shares at
December 31, 2003 and
2004 and September 30,
2005 (unaudited); issued
and outstanding none

Series H convertible
preferred stock, \$0.001
par value. Authorized,
issued, and outstanding
1,575,229 shares at
December 31, 2003 and
2004 and September 30,
2005 (unaudited)
(liquidation value of
\$5,119,494 as of
December 31, 2004)

1,575 1,575 1,575

Common stock, \$0.001
par value. Authorized
260,000,000 shares at
December 31, 2003 and
2004 and September 30,
2005 (unaudited); issued
and outstanding 195,209,
197,569 and 208,743
shares as of December
31, 2003 and 2004 and
September 30, 2005
(unaudited), respectively

195 198 209

Additional paid-in capital 127,631,942 111,957,403 96,806,331

Accumulated deficit (127,770,920) (172,511,684) (198,475,470)

Other comprehensive income
(loss) 2,518 (23,036) (6,331)

Total stockholders'
(deficit) (129,851) (60,570,705) (101,668,847)

Total liabilities,
mandatorily redeemable
convertible preferred
stock and stockholders'
(deficit)

\$ 45,960,411 \$ 30,981,650 \$ 25,543,130

See accompanying Notes to Consolidated Financial Statements

ACORDA THERAPEUTICS, INC. AND SUBSIDIARY

Consolidated Statements of Operations

	Year ended June 30,		Six-month period ended December 31, 2003	Year ended December 31, 2004	Nine-month period ended September 30,	
	2002	2003			2004	2005
					(unaudited)	(unaudited)
Gross sales Zanaflex	\$	\$	\$	\$	\$	\$ 3,239,091
Less: discounts and allowances				(4,416,691)	(144,338)	(991,560)
Net sales				(4,416,691)	(144,338)	2,247,531
Grant revenue	131,592	473,588	382,094	479,495	444,920	184,195
Total net revenue	131,592	473,588	382,094	(3,937,196)	300,582	2,431,726
Less: cost of sales				(885,450)	(362,695)	(2,273,970)
Gross profit	131,592	473,588	382,094	(4,822,646)	(62,113)	157,756
Operating expenses:						
Research and development	11,146,415	17,526,656	16,743,098	21,999,091	18,620,938	9,652,543
Research and development related party	4,686,671	2,265,233	3,343,681			
Sales and marketing				4,661,643	2,792,962	9,657,233
General and administrative	6,636,306	6,387,999	17,068,746	13,283,506	11,033,820	6,338,716
Total operating expenses	22,469,392	26,179,888	37,155,525	39,944,240	32,447,720	25,648,492
Operating loss	(22,337,800)	(25,706,300)	(36,773,431)	(44,766,886)	(32,509,833)	(25,490,736)
Other income (expense):						
Interest and amortization of debt discount expense		(77,712)	(37,646)	(385,419)	(297,419)	(824,196)
Interest and amortization of debt discount expense related party	(407,686)	(368,935)	(184,226)			
Interest income	983,876	392,742	276,334	409,118	329,263	347,352
Other income		25,903	6,998	2,423	2,423	989
Total other income (expense)	576,190	(28,002)	61,460	26,122	34,267	(475,855)
Minority interest related party	580,467					
Cumulative effect of change in accounting principle						2,805

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	Nine-month period ended September 30.					
Net loss	(21,181,143)	(25,734,302)	(36,711,971)	(44,740,764)	(32,475,566)	(25,963,786)
Beneficial conversion feature, accretion of issuance costs, preferred dividends, and fair value of warrants issued to convertible preferred stockholders	(54,973)	(24,320,031)	(11,984,669)	(24,746,337)	(18,496,128)	(18,636,443)
Net loss allocable to common stockholders	\$ (21,236,116)	\$ (50,054,333)	\$ (48,696,640)	\$ (69,487,101)	\$ (50,971,694)	\$ (44,600,229)
Net loss per share allocable to common stockholders basic and diluted	\$(111.90)	\$(261.38)	\$(252.87)	\$(351.76)	\$(259.22)	\$(221.17)
Weighted average common shares outstanding used in computing net loss per share allocable to common stockholders basic and diluted	189,786	191,497	192,573	197,541	196,636	201,656
See accompanying Notes to Consolidated Financial Statements						

ACORDA THERAPEUTICS, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' (Deficit)

Stockholders' (deficit)

	Series A convertible preferred stock		Series B convertible preferred stock		Series C convertible preferred stock		Series F convertible preferred stock		Series H convertible preferred stock		Common Stock		Additional paid-in capital	Accumulated Deficit	Comprehensive Income (Loss)	Total Stockholders' (deficit)
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value				
Balance at June 30, 2001	1,255,000	\$ 1,255	750,000	\$ 750		\$	2,300,000	\$ 2,300	1,575,229	\$ 1,575	188,120	\$ 188	\$ 25,096,201	\$ (44,143,504)	\$	\$ (19,041,235)
Issuance of Series A convertible preferred stock in May 2002, \$1.00 per share	51,068	51											22,749			22,800
Issuance of Series B convertible preferred stock in January 2002, \$2.00 per share			150,000	150									299,850			300,000
Issuance of Series C convertible preferred stock in February 2002, \$3.00 per share					333,333	333							999,666			999,999
Issuance of common stock in September and October 2001 and February 2002, \$4.68 per share											3,381	4	20,615			20,619
Research and development expense for issuance of stock options to nonemployees													74,624			74,624
Compensation expense for issuance of stock options to employees													1,331,911			1,331,911
Accretion of issuance costs related to Series F mandatorily redeemable convertible preferred stock													(27,337)			(27,337)
Accretion of issuance costs related to													(27,636)			(27,636)

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Stockholders' (deficit)

Deemed dividends on preferred stock for issuance of preferred stock with beneficial conversion feature, Series J	(1,106,828)	(1,106,828)
Comprehensive loss		
-Unrealized loss on investment securities		(6,078)
Net loss	(25,734,302)	(25,734,302)

Total Comprehensive loss (25,740,380)

Deferred revenue	9,729	4,752
Total current liabilities	33,799	19,826
Leases payable, net of current portion	443	175
Other long-term liabilities	2,994	1,675
Total liabilities	37,236	21,676
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$0.0001 par value per share; 140,000,000 authorized shares, 28,907,147 and 27,624,025 shares issued and outstanding as of December 31, 2014 and December 31, 2013, respectively	3	3
Additional paid-in capital	242,527	212,332
Accumulated other comprehensive loss	(95)	(34)

Stockholders' (deficit)

Retained earnings (accumulated deficit)	10,449	(4,374)
Total stockholders' equity	252,884	207,927
Total liabilities and stockholders' equity	\$290,120	\$229,603

See accompanying notes to these consolidated financial statements.

Ellie Mae, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except share and per share amounts)

	Year ended December 31,		
	2014	2013	2012
Revenues	\$161,537	\$128,481	\$101,845
Cost of revenues	46,283	32,630	23,114
Gross profit	115,254	95,851	78,731
Operating expenses:			
Sales and marketing	26,544	21,331	17,887
Research and development	28,228	24,695	18,053
General and administrative	39,361	30,853	21,601
Total operating expenses	94,133	76,879	57,541
Income from operations	21,121	18,972	21,190
Other income (expense), net	488	460	(43)
Income before income taxes	21,609	19,432	21,147
Income tax provision	6,786	6,114	1,683
Net income	\$14,823	\$13,318	\$19,464
Net income per share of common stock:			
Basic	\$0.53	0.50	0.83
Diluted	\$0.50	0.47	0.76
Weighted average common shares used in computing net income per share of common stock:			
Basic	27,858,828	26,581,962	23,523,222
Diluted	29,593,873	28,502,403	25,537,192
Net income	\$14,823	\$13,318	\$19,464
Other comprehensive income (loss), net of taxes:			
Unrealized gain (loss) on investments	(61)	31	(65)
Comprehensive income	\$14,762	\$13,349	\$19,399

See accompanying notes to these consolidated financial statements.

Ellie Mae, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

	Common Stock		Additional	Other	Accumulated	Total
	Shares	Amount	Paid-in	Comprehensive	Accumulated	Stockholders'
			Capital	Loss	Deficit	Equity
Balances, December 31, 2011	21,019,590	2	116,012	—	(37,156)	78,858
Issuance of common stock under stock incentive plans	1,447,456	—	3,516	—	—	3,516
Issuance of common stock under employee stock purchase plan	126,242	—	742	—	—	742
Issuance of common stock in connection with public offering, net	3,465,245	1	55,530	—	—	55,531
Stock-based compensation	—	—	6,849	—	—	6,849
Excess tax benefit from exercise of stock options	—	—	1,967	—	—	1,967
Unrealized losses on investments	—	—	—	(65)	—	(65)
Net income	—	—	—	—	19,464	19,464
Balances, December 31, 2012	26,058,533	3	184,616	(65)	(17,692)	166,862
Issuance of common stock under stock incentive plans	1,462,566	—	4,623	—	—	4,623
Shares withheld for employee taxes related to vested restricted stock units	(6,344)	—	(174)	—	—	(174)
Issuance of common stock under employee stock purchase plan	109,270	—	1,922	—	—	1,922
Stock-based compensation	—	—	14,390	—	—	14,390
Excess tax benefit from exercise of stock options	—	—	6,955	—	—	6,955
Unrealized gains on investments	—	—	—	31	—	31
Net income	—	—	—	—	13,318	13,318
Balances, December 31, 2013	27,624,025	3	212,332	(34)	(4,374)	207,927
Issuance of common stock under stock incentive plans	1,210,435	—	7,537	—	—	7,537
Shares withheld for employee taxes related to vested restricted stock units	(29,424)	—	(902)	—	—	(902)
Issuance of common stock under employee stock purchase plan	102,111	—	2,624	—	—	2,624
Stock-based compensation	—	—	15,084	—	—	15,084
Excess tax benefit from exercise of stock options	—	—	5,852	—	—	5,852
Unrealized losses on investments	—	—	—	(61)	—	(61)
Net income	—	—	—	—	14,823	14,823
Balances, December 31, 2014	28,907,147	\$3	\$242,527	\$ (95)	\$ 10,449	\$ 252,884

See accompanying notes to these consolidated financial statements.

Ellie Mae, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$14,823	\$13,318	\$19,464
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	5,605	4,727	3,144
Provision for uncollectible accounts receivable	1	32	70
Amortization of intangible assets	2,779	1,442	1,635
Impairment loss on intangible assets	1,968	—	—
Amortization of discount related to acquisition holdback	36	106	186
Amortization of investment premium	1,280	1,614	—
Stock-based compensation expense	14,548	14,259	6,849
Write-off of internal-use software costs	693	—	19
Excess tax benefit from exercise of stock options	(5,852)	(6,955)	(1,967)
Deferred income taxes	395	(4,364)	(559)
Changes in operating assets and liabilities:			
Accounts receivable	(8,380)	(2,303)	(3,004)
Prepaid expenses and other current assets	(4,867)	4,219	(1,506)
Deposits and other assets	(1,146)	(1,353)	50
Accounts payable	2,675	907	500
Accrued, other current and other liabilities	13,436	3,437	2,538
Deferred revenue	2,604	(127)	334
Net cash provided by operating activities	40,598	28,959	27,753
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment	(19,834)	(6,092)	(8,121)
Purchases of investments	(64,748)	(101,121)	(65,811)
Maturities of investments	57,986	56,899	7,708
Acquisitions, net of cash acquired	(34,641)	(3,000)	(2,907)
Other investing activities, net	—	1,000	10
Net cash used in investing activities	(61,237)	(52,314)	(69,121)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from public offerings, net of commissions	—	—	55,964
Offering costs paid during the period	—	—	(433)
Payment of capital lease obligations	(1,178)	(624)	(6)
Proceeds from issuance of common stock under employee stock plans	10,161	6,546	4,258
Tax payments related to shares withheld for vested restricted stock units	(902)	(174)	—
Excess tax benefit from exercise of stock options	5,852	6,955	1,967
Net cash provided by financing activities	13,933	12,703	61,750
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,706)	(10,652)	20,382
CASH AND CASH EQUIVALENTS, Beginning of period	33,462	44,114	23,732
CASH AND CASH EQUIVALENTS, End of period	\$26,756	\$33,462	\$44,114
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$40	\$268	\$356
Cash paid for income taxes	\$126	\$4,582	\$212
Supplemental disclosure of non-cash investing and financing activities:			
Fixed asset purchases not yet paid	\$921	\$884	\$186

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Stock-based compensation capitalized to property and equipment	\$534	\$131	\$—
Acquisition of property and equipment under capital leases	\$1,269	\$1,271	\$—
See accompanying notes to these consolidated financial statements.			

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Ellie Mae, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—Description of Business

Ellie Mae, Inc. (the “Company” or “Ellie Mae”) is a leading provider of innovative on-demand software solutions and services for the residential mortgage industry in the United States. Its end-to-end Encompass mortgage management solution provides one system of record that allows banks, credit unions and mortgage lenders to originate and fund mortgages and improve compliance, loan quality and efficiency.

NOTE 2—Basis of Presentation and Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Ellie Mae and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Certain adjustments primarily related to the Company’s tax provision for the year ended December 31, 2013 have been made as further described in Note 2, under “Correction of Immaterial Errors.” In addition, certain amounts in prior periods have been reclassified to conform to current period presentation, with no effect on previously reported net income or stockholders’ equity.

Applicable Accounting Guidance

Any reference in these notes to applicable accounting guidance is meant to refer to the authoritative generally accepted accounting principles in the United States (“U.S. GAAP”), as found in the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”).

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates estimates on a regular basis including those relating to revenue recognition, the allowance for doubtful accounts, goodwill, intangible assets, the valuation of deferred income taxes, stock-based compensation and unrecognized tax benefits, among others. Actual results could differ from those estimates and such differences may have a material impact on the Company’s consolidated financial statements and footnotes.

Cash and Cash Equivalents

All highly liquid investments with original maturities of 90 days or less are considered to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

Fair Value of Financial Instruments

The fair values of the Company’s cash equivalents, accounts receivable and accounts payable approximate their carrying values due to the short maturities of the instruments. The fair value of the Company’s capital lease obligations approximates the carrying value due to the terms continuing to approximate prevailing market terms.

All of the Company’s investments that have maturities of greater than 90 days are classified as available-for-sale and are carried at fair value. The Company invests excess cash primarily in investment-grade interest-bearing securities, such as money market accounts, certificates of deposit, commercial paper, corporate bonds, municipal and government agency obligations and guaranteed obligations of the U.S. government. Fair value is determined based on quoted market rates when observable or utilizing data points that are observable, such as quoted prices, interest rates and yield curves. The cost of available-for-sale marketable securities sold is based on the specific identification method. Unrealized gains and losses are reported in stockholders’ equity as accumulated other comprehensive (income) loss. Realized gains and losses are included in other income (expense), net. Interest and dividends are included in other income (expense), net when they are earned.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable consist of amounts billed to customers in connection with sales of services. The Company analyzes individual trade accounts receivable by considering historical bad debts, customer creditworthiness, current economic trends, changes in customer payment terms and collection trends when evaluating the adequacy of the allowance for doubtful accounts.

Allowances for doubtful accounts are recognized in the period in which the associated receivable balance is not considered recoverable. Any change in the assumptions used in analyzing accounts receivable may result in changes to the allowance for doubtful accounts and is recognized in the period in which the change occurs. The Company writes off a receivable when all rights, remedies and recourses against the account and its principals are exhausted and records a benefit when previously reserved accounts are collected.

Concentration of Credit Risk

The financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, investments and accounts receivable. The Company's cash and cash equivalents are deposited with major financial institutions in the United States. At times, such deposits may be in excess of federally insured limits. Management believes that the Company's investments in cash equivalents and available-for-sale investments are financially sound. The Company's accounts receivable are derived from revenue earned from customers located in the United States. The Company had no customers that represented 10% or more of revenues for the years ended December 31, 2014, 2013 and 2012. No customer represented more than 10% of accounts receivable as of December 31, 2014 and 2013.

Software and Website Development Costs

The Company capitalizes internal and external costs incurred to develop internal-use software and website applications. Capitalized internal costs include salaries, benefits and stock-based compensation charges for employees that are directly involved in developing the software or website application, and depreciation of assets used in the development process. Capitalized external costs include third-party consultants involved in the development process, as well as other direct costs incurred as part of the development process.

Capitalization of costs begins when the preliminary project stage has been completed, management authorizes and commits to funding a project and it is probable that the project will be completed and the software or website application will be used to perform the function intended. Internal and external costs incurred as part of the preliminary project stage are expensed as incurred.

Capitalization ceases at the point at which the project is substantially complete and ready for its intended use. Internal and external training costs and maintenance costs during the post-implementation operation stage are expensed as incurred.

Internal-developed core software is amortized on a straight-line basis over its estimated useful life, generally three to five years. Amortization of product related internal-use software and website applications is typically recorded to cost of revenues, and amortization of other internal-use software and website applications is typically recorded to the operating expense line to which it most closely relates. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. The capitalized costs are included in property and equipment, net in the accompanying consolidated balance sheets. For the years ended December 31, 2014, 2013 and 2012, the Company capitalized software and website application development costs of \$15.9 million, \$5.1 million, and \$0.5 million, respectively. During the year ended December 31, 2014, the Company recorded a \$0.7 million impairment loss on the write-off of internal-use software. There were no such write-offs during the years ended December 31, 2013 and 2012.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and are depreciated on a straight-line basis over their estimated useful lives, which is generally three to seven years. Leasehold improvements are amortized on a straight-line basis over their estimated useful lives or over the term of the lease, whichever is shorter.

Business Combinations

The Company recognizes and measures the identifiable assets acquired in a business combination, the liabilities assumed and any non-controlling interest in the acquiree, measured at their fair values as of the acquisition date. The Company recognizes contingent consideration arrangements at their acquisition-date fair values with subsequent changes in fair value reflected in earnings, recognizes pre-acquisition loss and gain contingencies at their acquisition-date fair values (with certain exceptions), capitalizes in-process research and development assets and expenses acquisition-related transaction costs as incurred. Due to the inherent uncertainty in the Company's best estimates and assumptions, they are subject to refinement. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the fair value of assets acquired and liabilities

assumed, with the corresponding offset to goodwill. Any subsequent adjustments, including changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period, are recognized in earnings rather than as an adjustment to the cost of the acquisition.

Goodwill

The Company records goodwill in a business combination when the consideration paid exceeds the fair value of the net assets acquired. Goodwill is not amortized, but is tested for impairment at least annually in the fourth quarter of the Company's fiscal year, or whenever changes in circumstances indicate that the fair value of a reporting unit is less than its carrying amount, including goodwill. The annual test is performed at the reporting unit level using a fair-value based approach. The Company's operations are organized as one reporting unit. In testing for a potential impairment of goodwill, the Company first compares the carrying value of assets and liabilities to the estimated fair value. If estimated fair value is less than carrying value, then potential impairment exists. The amount of any impairment is then calculated by determining the implied fair value of goodwill using a hypothetical purchase price allocation. Impairment is equivalent to any excess of goodwill carrying value over its implied fair value. There were no impairment charges related to goodwill during the years ended December 31, 2014, 2013, and 2012.

The process of evaluating the potential impairment of goodwill requires significant judgment at many points during the analysis, including calculating fair value of the reporting unit based on estimated future cash flows and discount rates to be applied.

Intangible Assets

Intangible assets are stated at cost less accumulated amortization. Intangible assets include developed technology, trade names and customer lists and contracts. Intangible assets with finite lives are amortized on a straight-line basis over the estimated periods of benefit, as follows:

Developed technology	2-5 years
Trade names with finite lives	2-3 years
Customer lists and contracts	4-9 years

Intangible assets with indefinite useful lives, including the AllRegs trade name, are stated at cost. The Company evaluates the remaining useful life of indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

The Company evaluates its finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to future undiscounted net cash flows expected to be generated by the asset or asset group. If such assets or asset groups are considered to be impaired, the impairment loss to be recognized is measured by the amount by which the carrying amounts of the assets or asset groups exceed the fair value of the assets or asset groups. Assets to be disposed of are reported at the lower of the carrying amount and fair value less costs to sell. Except as described in Note 6, there has been no loss on impairment or disposal of intangible assets.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for indications of possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Except for the impairment losses recorded on internal-use software and intangible assets described elsewhere in this note, there has been no loss on impairment or disposal of long-lived assets.

Revenue Recognition

The Company generates revenues primarily from transaction-based fees and fees for software and related services. On-demand revenues are revenues generated from company-hosted software subscriptions that customers access through the Internet and revenues from customers that pay fees based on a per closed loan, or success, basis subject to monthly base fees, which the Company refers to as Success-Based Pricing. Additionally, on-demand revenues are comprised of software services sold transactionally; Ellie Mae Network transaction fees; education and training, loan product and guideline data and analytics services under the AllRegs brand; and professional services which include consulting, implementation and training services. On-premise revenues are revenues generated from maintenance services, sales of customer-hosted software licenses, and professional services. Sales taxes assessed by governmental authorities are excluded from revenue.

The Company commences revenue recognition when all of the following conditions are satisfied:

- There is persuasive evidence of an arrangement;

- The service has been or is being provided to the customer;
- The collection of the fees is reasonably assured; and

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- The amount of fees to be paid by the customer is fixed or determinable.

On-Demand Revenues

Subscription Services and Usage-Based Fee Arrangements. Subscription services and usage-based fee arrangements generally include a combination of the Company's products delivered as software-as-a-service ("SaaS") and support services. These arrangements are generally non-cancelable and do not contain refund-type provisions. These revenues typically include the following:

SaaS Encompass Revenues. The Company offers web-based, on-demand access to Encompass software for a monthly recurring fee. The Company provides the right to access its loan origination software and handles the responsibility of managing the servers, providing security, backing up the data and applying updates. Customers under SaaS arrangements may not take possession of the software at any time during the term of the agreement. Subscription revenues are recognized ratably over the contract terms as subscription services are provided, beginning on the commencement date of each contract, which is the date the Company's service is made available to customers. Contracts generally range from one year to five years.

Alternatively, customers can elect to pay on a success basis. Success basis contracts generally have a term of one to five years and are subject to monthly base fees, which enable customers to close loans up to a contractually agreed-to minimum number of transactions, and additional closed loan fees, which are assessed for loans closed in excess of the minimum. Revenue is earned from both base fees and additional closed loan fees as the result of the customer's usage of Encompass. Monthly base fees are recognized over the respective monthly service period as the subscription services are provided. Additional closed loans fees are recognized when the loans are reported as closed. This offering also includes Encompass CenterWise, Encompass Compliance Service and Encompass Docs Solution as integrated components, which are combined elements of the arrangement that are delivered in conjunction with the SaaS Encompass offering and therefore are not accounted for separately.

Encompass CenterWise Revenues. Encompass CenterWise is a bundled offering of electronic document management ("EDM") and websites used for customer relationship management. Generally, revenue is recognized for Encompass CenterWise after the service is rendered, except when Encompass CenterWise is automatically included as an integrated component of the SaaS Encompass offering, in which case the associated revenue is recognized as described above.

Services Revenues. The Company provides a variety of mortgage-related and other business services, including automated documentation; fraud detection, valuation, validation and risk analysis; income verification; marketing and customer management; flood zone certifications; and compliance reports. Services revenues are recognized upon completion of the services.

Transactional Revenues. The Company has entered into agreements with various lenders, service providers and certain government-sponsored entities participating in the mortgage origination process that provide them access to, and ability to interoperate with, mortgage originators on the Ellie Mae Network. Under these agreements, the Company earns transaction fees when transactions are processed through the Ellie Mae Network. Transaction revenues are recognized when there is evidence that the qualifying transactions have occurred on the Ellie Mae Network and collection of the resulting receivable is reasonably assured.

Subscriptions to Online Research and Data Resources: The Company provides mortgage originators and underwriters with access to online databases of various federal and state laws and regulations and forms as well as mortgage investor product guidelines. Subscription fees are recognized ratably over the subscription term as subscription services are provided, which is typically one year.

Professional Services Revenues: Professional services revenues are generally recognized when milestones are achieved for fixed price contracts or as the services are rendered for time and material contracts. The majority of our professional services contracts are on fixed price basis. Training revenues are recognized as the services are rendered.

On-Premise Revenues

Revenue from the sale of software licenses is recognized in the month in which the required revenue recognition criteria are met, generally in the month in which the software is delivered. Revenue from the sale of maintenance services and professional services is recognized over the period in which the services are provided.

Multiple Element Arrangements

The Company has entered into both subscription services and software arrangements with multiple elements. For arrangements with multiple deliverables, the Company evaluates whether the individual deliverables qualify as separate units of accounting. In order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery.

Subscription services agreements with multiple elements generally include multiple subscriptions and professional services. When such agreements involve multiple elements that qualify as separate units of accounting, the Company allocates arrangement consideration to all deliverables at the inception of an arrangement based on the relative selling price method in accordance with the selling price hierarchy, which includes: (i) vendor specific objective evidence (“VSOE”) if it is available; (ii) third-party evidence (“TPE”) if VSOE is not available; and (iii) the best estimate of selling price (“BESP”) if neither VSOE nor TPE is available.

VSOE. The Company determines VSOE based on its historical pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices for these services fall within a reasonably narrow pricing range. The Company has not historically priced its subscription services within a narrow range. As a result, the Company has not been able to establish selling prices for subscription services based on VSOE.

TPE. When VSOE cannot be established for deliverables in multiple element arrangements, the Company applies judgment with respect to whether it can establish a selling price based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately. Generally, the Company’s go-to-market strategy differs from that of its peers and its offerings contain a significant level of differentiation such that the comparable pricing of services with similar functionality cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor services’ selling prices are on a standalone basis. As a result, the Company has not been able to establish selling prices based on TPE.

BESP. When the Company is unable to establish a selling price using VSOE or TPE, the Company uses BESP in its allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would transact a sale if the service was sold on a standalone basis. When establishing BESP, the Company reviews company specific factors used to determine list price and makes adjustments as appropriate to reflect current market conditions and pricing behavior. The Company’s process for establishing list price includes assessing the cost to provide a particular product or service, surveying customers to determine market expectations, analyzing customer demographics and taking into account similar products and services historically sold by the Company. The Company continues to review the factors used to establish list price and adjusts BESP as necessary.

Because the Company has determined that neither VSOE nor TPE is available, it uses BESP to allocate the selling price to multiple elements in subscription services arrangements. The amount of revenue allocated to delivered items is limited by contingent revenue, if any.

Subscription services have standalone value as such services are often sold separately. Additionally, the Company has concluded that professional services included in multiple element arrangements have standalone value. In establishing standalone value, the Company considered the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, and the timing of when the professional services contract was signed in comparison to the subscription service start date.

For software arrangements with multiple elements (e.g., maintenance and support contracts bundled with licenses), revenue is allocated to the delivered elements of the arrangement when VSOE is determinable, using the residual value method based on objective evidence of the fair value of the undelivered elements, which is specific to the Company. When VSOE is not determinable, the entire arrangement is recognized ratably over the term of the contract. Revenue is recognized under this model upon receipt of cash payment from the customer if collectability is not reasonably assured and when other revenue recognition criteria have been met. The VSOE of fair value for maintenance and support obligations related to licenses is based upon the prices paid for the separate renewal of these services by customers. Maintenance revenues are recognized ratably over the period of the maintenance contract.

Deferred Revenue

Deferred revenue represents billings or payments received in advance of revenue recognition and is recognized as the revenue recognition criteria are met. Balances consist primarily of prepaid subscription services and professional,

training and maintenance services not yet provided as of the balance sheet date. Deferred revenue that will be recognized during the succeeding 12 month period is recorded as current deferred revenue, and the remaining portion is recorded as other long-term liabilities. Long-term deferred revenue at December 31, 2014 and 2013 was not material.

Deferred Commission Expense

Deferred commission expenses are the incremental costs that are directly associated with non-cancelable subscription contracts with customers and consist of sales commissions paid to our direct sales force. Commissions are calculated based on a percentage of the revenues for the non-cancelable term of subscription contracts, which are typically one to five years.

Prior to 2013, commissions were paid and recognized as sales expense when customer payments for contracted services were received on a monthly basis because commissions were earned based on receipt of customer payments. In 2013, the Company amended its commission plans to provide for payment after the customer's contract is signed. As a result of the change in commission plans, beginning in 2013, commission expense was deferred and amortized to sales expense over the non-cancelable terms of the related subscription contracts. The deferred commission expense amounts are recoverable through the future revenue streams under the non-cancelable customer contracts. The plans also include claw back provisions, which require repayment of a proportionate amount of commissions, should customers cancel their contracts prior to the end of the initial contractual term.

During the years ended December 31, 2014 and 2013, the Company deferred \$2.5 million and \$1.9 million of commission expense, respectively. No amounts were deferred during the year ended December 31, 2012.

At December 31, 2014 and 2013, \$3.3 million and \$1.6 million of deferred commission remained on our consolidated balance sheets, respectively.

Warranties and Indemnification

The Company provides a warranty for its software products and services to its customers and accounts for its warranties as a contingent liability. The Company's software is generally warranted to perform substantially as described in the associated product documentation and to satisfy defined levels of uptime reliability. The Company's services are generally warranted to be performed consistent with industry standards. The Company has not provided for a warranty accrual as of December 31, 2014 or 2013. To date, the Company's product warranty expense has not been significant.

The Company generally agrees to indemnify its customers against legal claims that the Company's software products infringe certain third-party intellectual property rights and accounts for its indemnification obligations as a contingent liability. In addition, the Company may also incur liability under its contracts if it breaches its warranties as well as certain security and/or confidentiality obligations. To date, the Company has not been required to make any payment resulting from either infringement claims asserted against its customers or from claims in connection with a breach of the security and/or confidentiality obligations in the Company's contracts. The Company has not recorded a liability for related costs as of December 31, 2014 or 2013.

The Company has obligations under certain circumstances to indemnify each member of the Company's board of directors against judgments, fines, settlements and expenses related to claims against such directors and otherwise to the fullest extent permitted under Delaware law and the Company's bylaws and certificate of incorporation.

Cost of Revenues

The Company's cost of revenues consists primarily of salaries, benefits and related costs (including stock-based compensation), allocated facilities costs, customer support, data centers, expenses for document preparation, income verification and compliance services, depreciation on computer equipment used in supporting the Ellie Mae Network, the Company's SaaS Encompass and Encompass CenterWise offerings, amortization of acquired intangible assets and capitalized internal-use software and website applications directly involved in revenue producing activities and professional services associated with implementation of software.

Research and Development Costs

The Company's research and development expenses consist primarily of: salaries and benefits, including bonuses and stock-based compensation expense; fees to contractors engaged in the development and support of the Ellie Mae Network, Encompass software and other products; and allocated facilities costs. Research and development costs that are not capitalized as internal-use software are expensed as they are incurred.

Advertising Expenses

The Company expenses advertising costs as incurred. Advertising expenses for the years ended December 31, 2014, 2013 and 2012 were \$0.4 million, \$0.4 million, and \$0.3 million, respectively.

Stock-Based Compensation

The Company recognizes stock-based compensation related to awards granted under its 2009 Stock Option and Incentive Plan (the “2009 Plan”), 2011 Equity Incentive Award Plan (the “2011 Plan”) and Employee Stock Purchase Plan (“ESPP”).

The Company recognizes compensation expense related to stock option grants that are ultimately expected to vest based on estimated fair values on the date of grant using the Black-Scholes option-pricing model. Such expense is recognized on a straight-line basis over the requisite service period of the award, which generally equals the vesting period.

The Company recognizes compensation expense related to restricted awards, restricted stock unit awards (“RSUs”), and performance share awards (“Performance Awards”) based on the fair market value of the underlying shares of common stock as of the date of grant. Expense related to the restricted awards and the RSUs are recognized on a straight-line basis over the requisite service period of the award, which generally equals the vesting period. Expense related to the Performance Awards is recognized under the graded vesting method over the requisite service period of the award, which recognizes a larger portion of the expense during the beginning of the vesting period than in the end of the vesting period. Management estimates the probable number of shares of common stock that will be granted until the achievement of the performance goals is known.

The date of grant is the date at which the Company and the employee reach a mutual understanding of the key terms and conditions of the award, appropriate approvals are received by approval by the board of directors and the Company becomes contingently obligated to issue equity instruments to the employee who renders the requisite service.

The Company is required to estimate potential forfeitures of stock grants and adjust recorded compensation cost accordingly. The estimate of forfeitures is based on historical experience and is adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from the prior estimates. Changes in estimated forfeitures will be recognized in the period of change and will impact the amount of stock-based compensation expense to be recognized in future periods.

All stock option awards to non-employees are accounted for at the fair value of the consideration received or the fair value of the equity instrument issued, as calculated using the Black-Scholes option-pricing model. The measurement of stock-based compensation for non-employees is subject to periodic adjustments as the options vest, and the expense is recognized over the period services are rendered.

Other Income (Expense), Net

Other income, net consisted of the following:

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Interest income	556	650	146
Net realized gain (loss) on investments	1	(55)	—
Interest expense	(69)	(135)	(189)
Total other income (expense), net	488	460	(43)
Income Taxes			

The Company accounts for income taxes under the asset and liability method, which requires the recognition of taxes payable or refundable for the current year, and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company’s financial statements or tax returns. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that the Company believes is more likely than not to be realized. The Company’s determination of its valuation allowance is based upon a number of assumptions, judgments and estimates, including forecasted earnings, future taxable income and the relative proportions of revenue and income before taxes in the various jurisdictions in which it operates.

The Company operates in various tax jurisdictions and is subject to audit by various tax authorities. Tax positions are based upon their technical merits, relevant tax law and the specific facts and circumstances as of each reporting

period. Changes in facts and circumstances could result in material changes to the amounts recorded for such tax positions. A tax position is only recognized in the financial statements if it is “more likely than not” to be sustained based solely on its technical merits as of the reporting date. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments that could result in recognition of additional tax benefits or additional charges to the tax provision and may not

accurately reflect actual outcomes. The Company has a policy to classify accrued interest and penalties associated with uncertain tax positions together with the related liability, and the expenses incurred related to such accruals are included in the provision for income taxes.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in equity that are excluded from net income, specifically unrealized gains (losses) on available-for-sale investments. Except for net realized loss on investments which was not significant, there were no reclassifications out of accumulated other comprehensive income (loss) that affected net income during the years ended December 31, 2014 and 2013.

Geographical Information

The Company is domiciled in the United States and had no international operations or sales to customers outside of the United States for the years ended December 31, 2014, 2013 and 2012.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 also requires significantly expanded disclosures about revenue recognition. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company has not yet developed an expectation of the impact that adoption will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"), which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. ASU 2014-15 requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements (or within one year after the date on which the financial statements are available to be issued, when applicable). Further, an entity must provide certain disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted. The Company does not believe that adoption of ASU 2014-15 will have a material impact on its consolidated financial statements.

Correction of Immaterial Errors

During 2013 and the first three quarters of 2014, in preparing its quarterly and annual tax provisions, the Company incorrectly excluded a portion of compensation to the Company's executive officers as nondeductible for income tax purposes under Section 162(m) of the Internal Revenue Code. During the fourth quarter of 2014, management determined that such compensation was, in fact, deductible and should have been included in the computation of the Company's historical income tax computations. The Company assessed the materiality of this misstatement on prior periods' financial statements in accordance with SEC's Staff Accounting Bulletin ("SAB") No. 99, Materiality, codified in ASC 250, ("ASC 250"), Presentation of Financial Statements, and concluded that the misstatement was not material to any prior annual or interim periods, but the cumulative adjustment necessary to correct the classification would be material to the three months ended December 31, 2014. In accordance with ASC 250 (SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), the financial statements as of December 31, 2013 and for the year ended December 31, 2013, which are presented herein, have been corrected. The financial statements have also been revised to reflect the correction of certain other previously uncorrected immaterial prior period errors.

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The following tables summarize the previously reported and corrected amounts of the impacted balances presented in the accompanying consolidated financial statements (in thousands except per share data).

As Previously Reported

	Three months ended							Year ended
	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2013
Revenues	\$42,798	\$39,984	\$32,178	\$30,350	\$33,006	\$34,270	\$30,855	\$128,481
Cost of revenues	11,669	10,576	9,200	8,198	8,332	8,607	7,611	32,748
Gross profit	31,129	29,408	22,978	22,152	24,674	25,663	23,244	95,733
Operating expenses								
Sales and marketing	6,521	6,451	6,095	6,098	5,163	5,167	4,903	21,331
Research and development	6,456	6,077	6,815	6,044	6,573	6,530	5,548	24,695
General and administrative	9,556	9,551	8,993	7,745	7,547	7,975	7,586	30,853
Total operating expenses	22,533	22,079	21,903	19,887	19,283	19,672	18,037	76,879
Income from operations	8,596	7,329	1,075	2,265	5,391	5,991	5,207	18,854
Other income, net	134	109	100	105	83	151	121	460
Income before income taxes	8,730	7,438	1,175	2,370	5,474	6,142	5,328	19,314
Income tax provision	4,675	3,082	393	752	2,114	2,457	1,415	6,738
Net income	\$4,055	\$4,356	\$782	\$1,618	\$3,360	\$3,685	\$3,913	\$12,576
Net income per share								
Basic	\$0.14	\$0.16	\$0.03	\$0.06	\$0.13	\$0.14	\$0.15	\$0.47
Diluted	\$0.14	\$0.15	\$0.03	\$0.06	\$0.12	\$0.13	\$0.14	\$0.44

Adjustments

	Three months ended							Year ended
	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2013
Revenues	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Cost of revenues	—	—	118	(44)	(44)	(30)	—	(118)
Gross profit	—	—	(118)	44	44	30	—	118
Operating expenses								
Sales and marketing	(276)	—	—	—	—	—	—	—
Research and development	—	—	—	—	—	—	—	—
General and administrative	—	—	—	—	—	—	—	—
Total operating expenses	(276)	—	—	—	—	—	—	—
Income from operations	276	—	(118)	44	44	30	—	118
Other income, net	—	—	—	—	—	—	—	—
Income before income taxes	276	—	(118)	44	44	30	—	118
Income tax provision	(686)	(368)	(118)	(49)	(242)	(188)	(145)	(624)
Net income	\$962	\$368	\$—	\$93	\$286	\$218	\$145	\$742
Net income per share								
Basic	\$0.04	\$0.01	\$—	\$—	\$0.01	\$0.01	\$0.01	\$0.03
Diluted	\$0.03	\$0.01	\$—	\$—	\$0.01	\$0.01	\$0.01	\$0.03

	As Corrected							Year ended Dec 31, 2013
	Three months ended							
	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	
Revenues	\$42,798	\$39,984	\$32,178	\$30,350	\$33,006	\$34,270	\$30,855	\$128,481
Cost of revenues	11,669	10,576	9,318	8,154	8,288	8,577	7,611	32,630
Gross profit	31,129	29,408	22,860	22,196	24,718	25,693	23,244	95,851
Operating expenses								
Sales and marketing	6,245	6,451	6,095	6,098	5,163	5,167	4,903	21,331
Research and development	6,456	6,077	6,815	6,044	6,573	6,530	5,548	24,695
General and administrative	9,556	9,551	8,993	7,745	7,547	7,975	7,586	30,853
Total operating expenses	22,257	22,079	21,903	19,887	19,283	19,672	18,037	76,879
Income from operations	8,872	7,329	957	2,309	5,435	6,021	5,207	18,972
Other income, net	134	109	100	105	83	151	121	460
Income before income taxes	9,006	7,438	1,057	2,414	5,518	6,172	5,328	19,432
Income tax provision	3,989	2,714	275	703	1,872	2,269	1,270	6,114
Net income	\$5,017	\$4,724	\$782	\$1,711	\$3,646	\$3,903	\$4,058	\$13,318
Net income per share								
Basic	\$0.18	\$0.17	\$0.03	\$0.06	\$0.14	\$0.15	\$0.16	\$0.50
Diluted	\$0.17	\$0.16	\$0.03	\$0.06	\$0.13	\$0.14	\$0.15	\$0.47

	As Previously Reported	Adjustments	As Corrected
Balance Sheet Items as of December 31, 2013			
Prepaid expenses and other current assets	\$6,473	\$(297)	) \$6,176
Total current assets	98,284	(297)	) 97,987
Property and equipment, net	12,751	118	12,869
Deposits and other assets	5,112	1,210	6,322
Total assets	228,572	1,031	229,603
Accrued and other current liabilities	10,224	(898)	) 9,326
Total current liabilities	20,724	(898)	) 19,826
Other long-term liabilities	777	898	1,675
Additional paid-in capital	212,043	289	212,332
Accumulated deficit	(5,116)	) 742	(4,374)
Total stockholders' equity	206,896	1,031	207,927
Total liabilities and stockholders' equity	228,572	1,031	229,603

	As Previously Reported	Adjustments	As Corrected
Statement of Stockholders' Equity Items for the Year Ended December 31, 2013			
Net income for the year ended December 31, 2013	12,576	742	13,318
Excess tax benefit from exercise of stock options for the year ended December 31, 2013	6,666	289	6,955
Additional paid-in capital at December 31, 2013	212,043	289	212,332
Accumulated deficit at December 31, 2013	(5,116	) 742	(4,374)
Total stockholders' equity at December 31, 2013	206,896	1,031	207,927
	As Previously Reported	Adjustments	As Corrected
Statement of Cash Flows Items for the Year Ended December 31, 2013			
Net income	\$ 12,576	\$ 742	\$ 13,318
Depreciation	4,845	(118	) 4,727
Excess tax benefit from exercise of stock options (operating activities)	(6,666	) (289	) (6,955)
Deferred income taxes	(2,987	) (1,377	) (4,364)
Change in prepaid expenses and other current assets	3,466	753	4,219
Net cash provided by operating activities	29,248	(289	) 28,959
Excess tax benefit from exercise of stock options (financing activities)	6,666	289	6,955
Net cash provided by financing activities	12,414	289	12,703

NOTE 3—Net Income Per Share of Common Stock

Net income per share of common stock is calculated by dividing net income by the weighted average shares of common stock outstanding during the period. Diluted net income per share of common stock is calculated by dividing net income by the weighted average shares of common stock outstanding and potential shares of common stock during the period. Potential shares of common stock include dilutive shares attributable to the assumed exercise of stock options, RSUs, performance share awards (“Performance Awards”) and Employee Stock Purchase Plan (“ESPP”) shares using the treasury stock method, if dilutive.

The components of net income per share of common stock were as follows:

	Year ended December 31,		
	2014	2013	2012
	(in thousands, except share and per share amounts)		
Net income	\$ 14,823	\$ 13,318	\$ 19,464
Basic shares:			
Weighted average common shares outstanding	27,858,828	26,581,962	23,523,222
Diluted shares:			
Weighted average shares used to compute basic net income per share	27,858,828	26,581,962	23,523,222
Effect of potentially dilutive securities:			
Employee stock options, RSUs, Performance Awards and ESPP shares	1,735,045	1,920,441	2,013,970
Weighted average shares used to compute diluted net income per share	29,593,873	28,502,403	25,537,192
Net income per share:			
Basic	\$0.53	\$0.50	\$0.83
Diluted	\$0.50	\$0.47	\$0.76

The following potential common shares were excluded from the computation of diluted net income per share, as their effect would have been anti-dilutive:

	Year ended December 31,		
	2014	2013	2012
Employee stock options and awards	624,277	758,900	252,462

Performance Awards are included in the diluted shares outstanding for each period if the established performance criteria have been met at the end of the respective periods. However, if none of the required performance criteria have been met for such awards, the Company includes the number of shares that would be issuable if the end of the reporting period were the end of the contingency period. Accordingly, in addition to the shares noted above, 588,000 Performance Awards were excluded from the dilutive shares outstanding for the year ended December 31, 2012. No shares were excluded from the dilutive shares outstanding for the years ended December 31, 2014 or 2013.

NOTE 4—Financial Instruments and Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are classified and disclosed in one of the following three categories:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2 — Valuations based on other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Valuations based on inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the assets or liabilities.

The following tables set forth by level within the fair value hierarchy the Company's financial assets that were accounted for at fair value on a recurring basis, according to the valuation techniques the Company used to determine their values:

	Fair value at December 31, 2014 (in thousands)	Fair value measurements using inputs considered as		
		Level 1	Level 2	Level 3
Money market funds	\$3,220	\$3,220	\$—	\$—
Corporate notes and obligations	29,035	—	29,035	—
Certificates of deposit	14,962	—	14,962	—
Municipal obligations	3,155	—	3,155	—
U.S. government and government agency obligations	60,879	16,946	43,933	—
	\$111,251	\$20,166	\$91,085	\$—

	Fair value at December 31, 2013 (in thousands)	Fair value measurements using inputs considered as		
		Level 1	Level 2	Level 3
Money market funds	\$16,431	\$16,431	\$—	\$—
Corporate notes and obligations	26,774	—	26,774	—
Certificates of deposit	14,920	—	14,920	—
Municipal obligations	3,830	—	3,830	—
U.S. government and government agency obligations	60,018	11,428	48,590	—
	\$121,973	\$27,859	\$94,114	\$—

Financial instruments include cash, cash equivalents and investments including investment-grade interest-bearing securities, such as money market accounts, certificates of deposit, commercial paper, corporate bonds, municipal and government agency obligations and guaranteed obligations of the U.S. government. The Company classifies its money market funds that are specifically backed by debt securities and U.S. government obligations as Level 1 instruments due to the use of observable market prices for identical securities that are traded in active markets.

When the Company uses observable market prices for identical securities that are traded in less active markets, the Company classifies its marketable financial instruments as Level 2. When observable market prices for identical securities are not available, the Company prices its marketable financial instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs. The Company corroborates non-binding market consensus prices with observable market data as such data exists.

As of December 31, 2014 and December 31, 2013, the Company did not have any assets or liabilities that were valued using Level 3 inputs. For the years ended December 31, 2014, 2013 and 2012, there were no transfers of financial instruments between Level 1, Level 2 or Level 3 classifications.

For the years ended December 31, 2014, 2013 and 2012, the Company recognized interest income from financial instruments of \$0.6 million, \$0.7 million and \$0.1 million, respectively. Gross realized gains and gross realized losses from the sale of investments were not significant during the years ended December 31, 2014, 2013 and 2012.

The carrying amounts, gross unrealized gains and losses and estimated fair value of cash and cash equivalents and both short-term and long-term investments consisted of the following:

	December 31, 2014			
	Amortized cost (in thousands)	Unrealized gains	Unrealized losses	Carrying or fair value
Cash and cash equivalents:				
Cash	\$23,536	\$—	\$—	\$23,536
Money market funds	3,220	—	—	3,220
	\$26,756	\$—	\$—	\$26,756
Investments:				
Corporate notes and obligations	\$29,071	\$4	\$(40)	) \$29,035
Certificates of deposit	14,972	11	(21)	) 14,962
Municipal obligations	3,149	6	—	) 3,155
U.S. government and government agency obligations	60,934	18	(73)	) 60,879
	\$108,126	\$39	\$(134)	) \$108,031
	December 31, 2013			
	Amortized cost (in thousands)	Unrealized gains	Unrealized losses	Carrying or fair value
Cash and cash equivalents:				
Cash	\$14,092	\$—	\$—	\$14,092
Money market funds	16,431	—	—	16,431
U.S. government agency securities	2,939	—	—	2,939
	\$33,462	\$—	\$—	\$33,462
Investments:				
Corporate notes and obligations	\$26,770	\$17	\$(13)	) \$26,774
Certificates of deposit	14,945	1	(26)	) 14,920
Municipal obligations	3,827	5	(2)	) 3,830
U.S. government and government agency obligations	57,102	15	(31)	) 57,086
	\$102,644	\$38	\$(72)	) \$102,610

The following table shows the gross unrealized losses and the related fair values of our investments that have been in a continuous unrealized loss position:

	December 31, 2014					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses
	(in thousands)					
Corporate notes and obligations	\$19,535	\$(40)	\$—	\$—	\$19,535	\$(40)
Certificates of deposit	5,735	(21)	—	—	5,735	(21)
U.S. government and government agency obligations	34,899	(73)	—	—	34,899	(73)
	\$60,169	\$(134)	\$—	\$—	\$60,169	\$(134)
	December 31, 2013					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized losses	Fair Value	Unrealized losses	Fair Value	Unrealized losses

The following table summarizes the maturities of the Company's investments at December 31, 2014:

	Carrying or fair value (in thousands)
2015	\$49,352
2016	40,848
2017	17,831
Total	\$108,031

Actual maturities may differ from the contractual maturities because borrowers may have the right to call or prepay certain obligations.

NOTE 5—Acquisitions

MortgageCEO

On January 15, 2014, the Company acquired substantially all the assets of ARG Interactive, LLC (dba MortgageCEO) (“MortgageCEO”), a SaaS company specializing in customer relationship management and marketing solutions for the residential mortgage industry. The Company acquired the MortgageCEO business in order to add functionality to its product offerings. The transaction was accounted for as a business combination and, accordingly, the total purchase price was allocated to the assets acquired based on their respective fair values. The Company expensed all transaction costs, which were insignificant, in the period in which they were incurred.

The total purchase consideration was \$5.0 million in cash, of which \$4.5 million was paid at the time of closing. The remaining \$0.5 million (the “holdback funds”) has been retained from the purchase consideration to cover working capital adjustments and any indemnity claims. Any unused portion of the holdback funds will be paid on July 15, 2015. The liability associated with the holdback funds is recorded to Acquisition holdback, net of discount in the Balance Sheet.

The allocation of the consideration of \$5.0 million to the identifiable tangible and intangible assets acquired and liabilities assumed under the purchase method of accounting, based on their estimated fair values as of the acquisition date, is summarized in the following table (in thousands):

Amortizable intangible assets:	
Developed technology	\$2,927
Customer relationships	643
Trade name	41
Goodwill	1,409
Total purchase consideration	\$5,020

Developed technology consists of the technology underlying MortgageCEO's existing products and has an estimated useful life of 5 years. The value of the developed technology was determined by discounting the estimated net future cash flows of these products.

Customer relationships relate to the Company's ability to sell existing and future versions of the Company's products and services to existing MortgageCEO customers and have an estimated useful life of five years. The fair value of the customer relationships was determined by discounting the estimated future net cash flows from future sales to existing customers.

Trade name represents the right to use the MortgageCEO name and has an estimated useful life of two years. The fair value of the trade name was determined by estimating the benefit from owning the asset rather than paying a royalty to a third party for the use of the asset.

Goodwill, which is deductible for tax purposes, represents the excess of the purchase price over the fair value of the identifiable assets acquired. Among the factors that contributed to a purchase price in excess of the fair value of the identifiable assets was the acquisition of an assembled workforce and synergies between the Company's products and MortgageCEO's products.

MortgageCEO's results of operations since the closing date of January 15, 2014 have been included in the Company's consolidated statements of comprehensive income for the year ended December 31, 2014. If the acquisition had occurred as of January 1, 2014, the revenue and earnings of the combined entity for the current reporting period would have been approximately the same. MortgageCEO's revenues and earnings for the year ended December 31, 2014 were not significant.

As described in Note 6, during the fourth quarter of 2014, the Company recorded a non-cash impairment charge of \$0.3 million to customer relationships and a non-cash impairment charge of \$1.7 million to developed technology acquired in the MortgageCEO acquisition.

AllRegs

On October 1, 2014, the Company acquired substantially all the assets of Mortgage Resource Center, Inc. (dba AllRegs) ("AllRegs), a provider of research and reference, education, documentation and data and analytics products relating to the mortgage industry. The Company acquired the AllRegs business in order to strengthen the Company's products through product integration and to introduce new products related to training, compliance management systems and product eligibility. The transaction was accounted for as a business combination and, accordingly, the total purchase price was allocated to the assets acquired based on their respective fair values. The Company expensed all transactions costs, which were insignificant, in the period in which they were incurred.

The total purchase consideration was \$28.1 million in cash, of which \$3.0 million was placed in escrow to cover closing capital settlement adjustments and any indemnity claims. Any amount remaining in escrow 18 months after the date of acquisition will be paid to the seller.

The allocation of the consideration of \$28.1 million to the identifiable tangible and intangible assets acquired and liabilities assumed under the purchase method of accounting, based on their estimated fair values as of the acquisition date, is summarized in the following table (in thousands):

Current assets	\$ 127	
Property and equipment	494	
Deposits and other assets	8	
Intangible assets:		
Developed technology	3,256	
In-process research and development	618	
Customer relationships	9,585	
Trade name	4,039	
Current liabilities	(383)
Deferred revenue	(2,484)
Goodwill	12,878	
Total purchase consideration	\$28,138	

Developed technology consists of the technology underlying AllRegs's existing products and has an estimated useful life of two years. The value of the developed technology was determined by estimating the cost to reproduce the technology.

In-process research and development represents the fair value of incomplete AllRegs research and development projects that had not reached technological feasibility as of the date of acquisition. The value of the in-process research and development was determined by estimating the cost to reproduce the research and development projects. The research and development projects were assigned an indefinite useful life until the research and development efforts were completed in December 2014, at which point the Company determined that the completed project, now recorded as developed technology, had an estimated useful life of three years.

Customer relationships relate to the Company's ability to sell existing and future versions of the Company's products and services to existing AllRegs customers and have an estimated useful life of six years. The fair value of the customer relationships was determined by discounting the estimated future net cash flows from future sales to these customers.

Trade name represents the right to use the AllRegs name and has an indefinite useful life. The fair value of the trade name was determined by estimating the benefit from owning the asset rather than paying a royalty to a third party for the use of the asset.

Goodwill, which is deductible for tax purposes, represents the excess of the purchase price over the fair value of the identifiable assets acquired. Among the factors that contributed to a purchase price in excess of the fair value of the identifiable assets was the acquisition of an assembled workforce and synergies between the Company's products and AllRegs's products.

AllReg's results of operations since the closing date of October 1, 2014, have been included in the Company's consolidated statements of comprehensive income for the year ended December 31, 2014 including related revenues of approximately \$2.0 million.

The following unaudited pro forma combined results of operations give effect to the acquisition of AllRegs as if it had occurred on January 1, 2013. The unaudited pro forma combined results of operations are provided for informational purposes only and do not purport to represent the Company's actual consolidated results of operations or consolidated financial position had the acquisition occurred on the dates assumed, nor are these financial statements necessarily indicative of the Company's future consolidated results of operations or consolidated financial position. The Company expects to incur costs and realize benefits associated with integrating the operations of the Company and AllRegs. The unaudited pro forma combined results of operations do not reflect the costs of any integration activities or any benefits that may result from operating efficiencies or revenue synergies. The pro forma combined results of operations for the years ended December 31, 2014 and 2013 include non-recurring adjustments relating to the reduction of AllRegs deferred revenue to its estimated fair value as of the acquisition date and the corresponding impact on subsequently recognized revenue, direct acquisition costs and changes to AllRegs employee compensation subsequent to the date of acquisition.

	Year ended December 31,	
	2014	2013
	(unaudited, in thousands, except per share amounts)	
Revenues	\$174,483	\$138,751
Net income	\$15,982	\$9,256
Net income per share:		
Basic	\$0.57	\$0.35
Diluted	\$0.54	\$0.32

NOTE 6—Balance Sheet Components

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	December 31,	
	2014	2013
	(in thousands)	
Prepaid expenses	\$5,667	\$3,450
Income tax receivable	1,892	2,255
Deferred tax assets, net	5,132	23
Other receivables	3,330	448
	\$16,021	\$6,176

Property and Equipment

Property and equipment, net, consisted of the following:

	December 31,	
	2014	2013
	(in thousands)	
Computer equipment	\$14,378	\$10,945
Software	6,094	4,314
Internal-use software	3,170	1,004
Office equipment	1,929	1,838
Telecom equipment	372	321
Leasehold improvements	2,289	2,208
Depreciable property and equipment	28,232	20,630
Accumulated depreciation and amortization	(17,838	) (12,540
Net depreciable property and equipment	\$10,394	\$8,090
Internal-use software and other assets not placed in service	\$18,300	\$4,779
	\$28,694	\$12,869

At December 31, 2014 and 2013, the Company had unamortized internal-use software costs of \$19.9 million and \$5.6 million, respectively. Amortization of internal-use software for the years ended December 31, 2014 and 2013 was \$0.7 million and \$0.1 million, respectively. There was no amortization of internal-use software for the year ended December 31, 2012.

The cost of property and equipment at December 31, 2014 included a total of \$2.0 million of computer equipment and \$0.5 million of software under capital leases. Accumulated amortization relating to computer equipment and software under capital leases totaled \$0.9 million at December 31, 2014. The cost of property and equipment at December 31, 2013 included a total of \$1.0 million of computer equipment and \$0.5 million of software under capital leases. Accumulated amortization relating to computer equipment and software under capital leases totaled \$0.6 million at December 31, 2013.

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was \$5.6 million, \$4.7 million and \$3.1 million, respectively. Amortization of assets under capital leases, which is included in depreciation expense, was \$0.7 million for the year ended December 31, 2014 and \$0.5 million for the year ended December 31, 2013. Amortization of assets under capital leases was not significant for the year ended December 31, 2012.

During the year ended December 31, 2014, the Company recorded a \$0.7 million impairment loss to general and administrative expenses on the write-off of internal-use software. There were no such write-offs during the years ended December 31, 2013 and 2012.

Intangible Assets

Intangible assets, net, consisted of the following:

	December 31, 2014			Weighted Average
	Gross carrying amount	Accumulated amortization	Net intangibles	Remaining Useful Life
	(in thousands)			(in years)
Assets subject to amortization:				
Developed technology	\$7,035	\$(2,759)	) \$4,276	2.3
Trade names	301	(279)	) 22	1.1
Customer relationships	17,200	(4,085)	) 13,115	5.3
Total assets subject to amortization	24,536	(7,123)	) 17,413	4.6
Assets not subject to amortization:				
Trade names	4,039		4,039	
	\$28,575	\$(7,123)	) \$21,452	
	December 31, 2013			
	Gross carrying amount	Accumulated amortization	Net intangibles	Weighted Average Remaining Useful Life
	(in thousands)			(in years)
Assets subject to amortization:				
Developed technology	\$1,874	\$(1,500)	) \$374	1.2
Trade names	260	(192)	) 68	1.0
Customer relationships	7,300	(2,653)	) 4,647	5.1
	\$9,434	\$(4,345)	) \$5,089	4.8

During the fourth quarter of 2014, the Company identified certain indicators of impairment for both the customer relationships and developed technology acquired in the MortgageCEO acquisition. Specifically, the Company determined it would need to make additional investments in the Encompass CRM product, including in the areas of security, stability and functionality in order to attract new customers (which were not expected and therefore not contemplated in the valuation of customer relationships and developed technology in the purchase price allocation at the acquisition date). The need to make these investments has resulted in a significant delay in the Company's ability to release an integrated Encompass CRM product to its customers. As a result, the Company determined it was necessary to assess the recoverability of the customer relationships and developed technology associated with generating Encompass CRM cash flows. The Company used an income approach to determine if the sum of the undiscounted cash flows expected to result from the use and eventual disposition of each asset exceeded the carrying amount of that asset. As a result of this assessment, it was determined that the sum of undiscounted cash flows was less than the carrying amount for each of the two assets. In order to determine the amount of impairment to each asset, the Company performed an analysis to determine the fair value of each asset, which was determined using the present value of expected future cash flows which were based on estimates, assumptions and judgments. These include the forecast of future cash flows related to each asset, the discount rate used in discounting those cash flows, and the expected remaining useful life of each asset. This analysis resulted in a non-cash impairment charge of \$0.3 million to customer relationships and a non-cash impairment charge of \$1.7 million to developed technology, which were included in sales and marketing expenses and research and development expenses, respectively, in the consolidated statements of comprehensive income for the year ended December 31, 2014. The Company reassessed the useful life of the customer relationships and developed technology and determined that they remained appropriate.

Amortization expense associated with intangible assets was \$2.8 million, \$1.4 million and \$1.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Minimum future amortization expense for intangible assets at December 31, 2014 was as follows:

	(in thousands)
2015	\$4,868
2016	4,182
2017	2,943
2018	2,093
2019	1,863
Thereafter	1,464
	\$17,413

Goodwill

The Company completed its annual impairment tests during the fourth quarters of 2014, 2013 and 2012 and determined that goodwill was not impaired.

The changes in the carrying value of goodwill during the year ended December 31, 2014 were as follows (in thousands):

Balance at January 1, 2014	\$51,051
Addition: MortgageCEO acquisition	1,409
Addition: AllRegs acquisition	12,878
Balance at December 31, 2014	\$65,338

There was no change to goodwill in the year ended December 31, 2013.

Accrued and Other Current Liabilities

Accrued and other liabilities consisted of the following:

	December 31,	
	2014	2013
	(in thousands)	
Accrued payroll and related expenses	\$11,071	\$6,154
Accrued commissions	917	552
Accrued professional fees	362	503
Accrued royalties	919	725
Sales and other taxes	357	254
Current portion of leases payable	422	861
Other accrued expenses	2,774	277
	\$16,822	\$9,326

Deferred Revenue

Deferred revenues consisted of the following:

	December 31,	
	2014	2013
	(in thousands)	
Software maintenance	\$1,310	\$2,148
Professional services and training	2,937	1,725
Subscriptions	4,406	—
Other	1,252	944
Total	9,905	4,817
Less portion included in other long-term liabilities	(176	) (65
	\$9,729	\$4,752

NOTE 7—Income Taxes

The components of the provision for income taxes were as follows:

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Current			
Federal	\$5,761	\$9,664	\$1,986
State	630	814	256
	6,391	10,478	2,242
Deferred			
Federal	336	(4,236	) 249
State	59	(128	) (808
	395	(4,364	) (559
Income tax provision	\$6,786	\$6,114	\$1,683

The provision for income taxes differed from the amount of income taxes determined by applying the U.S. statutory federal income tax rate as follows:

	Year ended December 31,			
	2014	2013	2012	
Tax at federal statutory rate	35	% 35	% 34	%
Other non-deductible items	—	—	3	
State taxes, net of federal benefit	3	3	1	
Domestic production activities deduction	—	(2) —	
Valuation allowance	—	—	(31)
Stock-based compensation	1	1	1	
Prior year true ups	—	(2) —	
Tax credits	(8	) (4) —	
Income tax provision	31	% 31	% 8	%

Excess tax benefits associated with stock option exercises and other equity awards were credited to stockholders' equity. The income tax benefits resulting from stock awards that were credited to stockholders' equity were \$5.9 million, \$7.0 million and \$2.0 million for the years ended December 31, 2014, 2013 and 2012.

The components of net deferred tax assets (liabilities) were as follows:

	December 31,	
	2014	2013
	(in thousands)	
Deferred tax assets		
Research and development credits	\$2,897	\$2,226
Stock-based compensation	6,802	5,084
Reserves and accruals	3,613	2,056
Net operating loss carryforwards	366	625
Total deferred tax assets	13,678	9,991
Valuation allowance	(2,897	) (2,056
Total deferred tax assets, net of valuation allowance	10,781	7,935
Deferred tax liabilities		
Depreciation and amortization	(6,026	) (2,944
Book/tax basis in acquired assets	(271	) (112
Total deferred tax liabilities	(6,297	) (3,056
Net deferred tax assets	\$4,484	\$4,879

At December 31, 2014, the Company had recorded \$5.1 million of net current deferred tax assets in prepaid expenses and other current assets, \$0.6 million of net long-term deferred tax assets in deposits and other assets and \$1.3 million of net long-term deferred tax liabilities in other long-term liabilities on the consolidated balance sheet. At December 31, 2013, the Company had recorded \$23,000 of net current deferred tax assets in prepaid expenses and other current assets and \$4.9 million of net long-term deferred tax assets in deposits and other assets.

The Company continues to maintain a valuation allowance against the deferred tax assets related to certain state research and development tax credits, the realization of which is uncertain as the Company expects to generate additional such credits at a faster rate than it is able to utilize them. The valuation allowance decreased by \$6.5 million in 2012, increased by \$0.3 million in 2013 and increased by \$0.8 million in 2014.

The Company utilized all of its federal net operating loss (“NOL”) during the year ended December 31, 2013. As of December 31, 2014, the Company had state NOL carryforwards of \$7.4 million, available to reduce future taxable income. These state NOL carryforwards will begin to expire commencing in 2015. As of December 31, 2014, the Company also had federal and state research and development tax credit carryforwards of \$4.7 million and \$5.6 million, respectively. If it were to be utilized, the related federal tax benefit of \$4.7 million would be credited to additional paid-in capital. The federal tax credit carryforwards begin to expire commencing in 2033. The state tax credit carryforwards may be carried forward indefinitely.

Internal Revenue Code Section 382 places a limitation (the “Section 382 Limitation”) on the amount of taxable income that can be offset by NOL carryforwards after a change in control (generally greater than 50% change in ownership) of a loss corporation. California has similar rules. The Company’s capitalization as described herein may have created such a change. Generally, after a control change, a loss corporation cannot deduct NOL carryforwards in excess of the Section 382 Limitation. Due to these “change in ownership” provisions, utilization of the NOL carryforwards may be subject to an annual limitation regarding their utilization against taxable income in future periods. The Company has prepared a Section 382 Limitation analysis and does not believe that any of its NOL carryforwards are subject to expiration prior to utilization. Limitations have been imposed on the Company’s acquired subsidiaries.

At December 31, 2014, the Company had \$2.4 million of cumulative unrecognized tax benefits. If the benefits were to be recognized, \$1.2 million would affect the effective tax rate and \$1.2 million would reverse the valuation allowance against the deferred tax assets. The Company does not expect a significant change to its unrecognized tax benefits over the next twelve months. The unrecognized tax benefits may increase or change during the year for items that arise in the ordinary course of business.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Beginning balance	\$1,806	\$1,262	\$1,855
Additions based on tax positions related to the current year	594	402	130
(Deductions) additions based on tax positions related to prior years including acquisitions	8	142	(723)
Ending balance	\$2,408	\$1,806	\$1,262

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company's tax years for 2001 and forward are subject to examination by the U.S. tax authorities and for 2000 and forward are subject to examination by the California tax authorities due to the carryforward of unutilized net operating losses and research and development credits.

The Company believes that it has provided adequate reserves for its income tax uncertainties in all open tax years, and that it does not have any tax positions that it is reasonably possible would materially increase or decrease the gross unrecognized tax benefits within the next twelve months.

The Company has a policy to classify accrued interest and penalties associated with uncertain tax positions together with the related liability, and the expenses incurred related to such accruals are included in the provision for income taxes. The Company did not incur any interest expense or penalties associated with unrecognized tax benefits during the years ended December 31, 2014, 2013 and 2012.

Enactment of the American Tax Relief Act

On December 19, 2014, the President signed into law The Tax Increase Prevention Act of 2014. Under prior law, a taxpayer was entitled to a research tax credit for qualifying amounts paid or incurred on or before December 31, 2013.

Leases

As of December 31, 2014, the Company leased seven facilities under operating lease arrangements. The lease expiration dates range from April 2015 to March 2020. Certain leases contain escalation clauses calling for increased rents. The Company recognizes rent expense on a straight-line basis over the lease period and has recorded deferred rent for the difference between rent payments and rent expense recognized. Rent expense was \$2.1 million, \$1.6 million, and \$1.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company leases certain fixed assets under noncancelable capital leases with various expiration dates. In January 2015, the Company entered into a lease agreement to finance the purchase of computer equipment for the Company's data centers with payments of \$0.3 million per month over the 24 month term of the agreement.

Future minimum lease payments under non-cancelable operating and capital leases at December 31, 2014 consisted of the following:

	Capital leases (in thousands)	Operating leases
2015	\$437	\$ 3,409
2016	316	3,788
2017	132	3,850
2018	—	3,864
2019	—	3,781
Thereafter	—	19,404
Total minimum lease payments	885	\$ 38,096
Less amount representing interest	(20)
Present value of minimum lease payments	865	
Less current portion	(422)
Long-term portion of lease obligations	\$443	
Purchase Commitments		

Commitments for the purchase of services and licenses of third-party software totaled \$11.5 million at December 31, 2014 and are to be paid as follows: \$6.8 million in 2015 and \$4.7 million in 2016. Included in these amounts are the payments associated with the lease agreement to finance the purchase of computer equipment that the Company entered into in January 2015.

Acquisition Holdback

As of December 31, 2014, the Company maintained potential future acquisition holdback payments of \$0.5 million, which may be payable during 2015.

Legal Proceedings

On March 25, 2011, Industry Access Incorporated (“Industry Access”) filed a patent infringement lawsuit against the Company and another defendant in the U.S. District Court for the Central District of California, alleging, among other things, that certain aspects of our Encompass loan management software system and related operations infringe U.S. Patent No. 7,769,681. On March 19, 2013, Industry Access filed a second patent infringement lawsuit against the Company in the U.S. District Court for the Central District of California, alleging, among other things, that our Encompass loan management software system, including the Encompass software, the Ellie Mae Network, Encompass Originator, Encompass Compliance Service, Encompass CenterWise, Encompass Electronic Document Management, Encompass Docs Solution and Encompass Product and Pricing Service, infringes U.S. Patent Nos. 8,117,120 and 8,145,563, which are continuations of U.S. Patent No. 7,769,681. In both matters, Industry Access sought unspecified damages, including enhanced damages for willful infringement and reasonable attorneys’ fees. On September 12, 2013, the Company filed a motion to relate and consolidate the two Industry Access lawsuits, which the court granted on October 31, 2013. The Court held a claim construction hearing on June 2, 2014, and issued a claim construction order on July 9, 2014. On September 29, 2014, the Company settled all related matters with Industry Access, which settlement is reflected in its financial results for the year ended December 31, 2014.

The Company is also subject to various other legal proceedings and claims whose outcome the Company does not expect to have a material adverse effect on its financial position. However, litigation is unpredictable and excessive verdicts, both in the form of monetary damages and injunctions, could occur. In the future, litigation could result in substantial costs and diversion of resources and the Company could incur judgments or enter into settlements of claims that could have a material adverse effect on its business.

NOTE 9—Stockholders' Equity

On July 3, 2012, the Company sold 3,465,245 shares of its common stock, and certain directors and executive officers of the Company (the “Selling Stockholders”) sold an aggregate of 101,638 shares in an underwritten public offering pursuant to the Company’s effective Registration Statement on Form S-3 (Registration No. 333-181980) at a public offering price of \$17.00 per share. The Company received the net proceeds from the sale of the shares offered by the Company of approximately \$55.5 million, after deducting underwriting discounts and commissions and offering expenses. The Company received no proceeds from the sale of shares offered by the Selling Stockholders.

The amended and restated certificate of incorporation of the Company authorizes 140,000,000 shares of common stock, \$0.0001 par value per share and 10,000,000 shares of undesignated preferred stock, \$0.0001 par value per share.

Common Stock

The following number of shares of common stock were reserved and available for future issuance at December 31, 2014:

	Reserved Shares
Options and awards outstanding under stock incentive plans	4,121,336
Shares available for future grant under the stock incentive plan	2,220,067
Shares available under the Employee Stock Purchase Plan	1,026,521
Total	7,367,924

NOTE 10—Stock Incentive Plans

The Company recognizes stock-based compensation related to awards granted under the 2009 Plan, the 2011 Plan and ESPP.

2009 Stock Option and Incentive Plan and 2011 Equity Incentive Award Plan

Stock Options

In March 2009, the Company adopted the 2009 Plan. On March 7, 2011, the Company adopted the 2011 Plan. The Company's stockholders approved the 2011 Plan on March 24, 2011.

Under the 2011 Plan, 2,666,666 shares of the Company's common stock were initially reserved. Additionally, any shares of common stock that were available for issuance under prior plans, including the 2009 Plan, were transferred to the 2011 Plan. As of December 31, 2014, 984,924 shares of the Company's common stock previously available for issuance under the 2009 Plan were available for issuance under the 2011 Plan. The number of common shares reserved for issuance under the 2011 Plan increase automatically in January of each year by the least of (a) 1,666,666 shares, (b) five percent (5%) of the shares of common stock outstanding on the last day of the immediately preceding fiscal year and (c) such smaller number of shares of common stock as determined by the Company's board of directors; provided, however that no more than 23,333,333 shares of common stock may be issued upon the exercise of incentive stock options.

In April 2009, the Company replaced employee options for 1,993,923 shares with exercise prices of \$5.40 and \$5.94 with options having an exercise price of \$1.38 and which included new vesting periods in accordance with the terms of the repricing plan ("April 2009 repricing"). The replacement options resulted in incremental stock-based compensation expense of \$0.7 million, which was recognized ratably as the awards vested between March 2009 and October 2012.

In August 2007, the Company granted an option to purchase 450,000 shares of the Company's common stock at an exercise price of \$5.94 per share to an executive officer of the Company. The option was canceled and repriced at \$1.38 as part of the April 2009 repricing. Such option contains a performance requirement with vesting triggered by a liquidity event of the Company and the number of vested shares is determined based upon a return multiple as defined in the agreement. Upon the IPO in April 2011, as a liquidity event defined in the agreement occurred, the Company began recognizing compensation expense. The options were fully vested as of December 31, 2012. The related compensation expense recognized for the year ended December 31, 2012 was \$0.2 million.

The following table summarizes the Company's stock option activity under the 2009 Plan and 2011 Plan:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2011	4,246,285	\$3.97		
Granted	865,250	\$14.84		
Exercised	(1,444,485)	\$2.34		
Forfeited or expired	(205,795)	\$7.05		
Outstanding at December 31, 2012	3,461,255	\$7.19		
Granted	841,371	\$23.39		
Exercised	(854,566)	\$5.39		
Forfeited or expired	(163,388)	\$20.10		
Outstanding at December 31, 2013	3,284,672	\$11.17		
Granted	904,602	\$28.76		
Exercised	(1,048,053)	\$7.19		
Forfeited or expired	(90,920)	\$22.46		
Outstanding at December 31, 2014	3,050,301	\$17.41	7.45	\$ 69,879
Ending vested and expected to vest at December 31, 2014	2,900,610	\$16.98	7.38	\$ 67,702
Exercisable at December 31, 2014	1,489,216	\$11.26	6.24	\$ 43,278

Intrinsic value of an option is the difference between the fair value of the Company's common stock at the time of exercise and the exercise price to be paid. The aggregate intrinsic value for options outstanding at December 31, 2014 in the table above represents the total intrinsic value, based on the Company's closing stock price of \$40.32 as of December 31, 2014. Options outstanding that are expected to vest are net of estimated future option forfeitures. For the majority of stock options outstanding, the options vest over a four-year period and have a maximum contractual term of ten years.

Following is additional information pertaining to the Company's stock option activity:

	Year ended December 31,		
	2014	2013	2012
	(in thousands except for per option data)		
Weighted average grant-date fair value per option granted	\$14.43	\$11.54	\$7.52
Grant-date fair value of options vested	\$6,126	\$3,775	\$2,805
Intrinsic value of options exercised	\$26,277	\$18,024	\$22,343
Proceeds received from options exercised	\$7,537	\$4,623	\$3,516

As of December 31, 2014, total unrecognized compensation cost related to unvested stock options, adjusted for estimated forfeitures, was \$14.6 million and is expected to be recognized over a weighted average period of 2.53 years.

Restricted Stock Units and Performance Awards

The fair value of the Company's RSUs and Performance Awards is measured based upon the closing price of its underlying common stock as of the grant date and is recognized over the vesting term. Upon vesting, RSUs convert into an equivalent number of shares of common stock.

In August 2012, the Company granted 147,000 Performance Awards ("2012 Performance Awards") to designated participants under the 2011 Plan. The 2012 Performance Awards represented the right to receive shares of the Company's common stock upon achievement of certain performance goals during the performance period of July 1, 2012 through June 30, 2013. In August 2013, after the Company filed with the SEC its Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, the Compensation Committee determined the level of achievement of the performance goals (the "Determination Date"), at which time the designated participants earned an aggregate of 588,000

shares of common stock. The earned shares were issued in August 2013, with 25%

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of the shares vested upon issuance and the remaining shares to vest 25% on each of the first three anniversaries of the Determination Date, subject to the continuous employment of the participant through such dates.

In February 2013, the Company granted 113,000 Performance Awards (“2013 Performance Awards”) to designated participants under the 2011 Plan. The 2013 Performance Awards represent the right to receive shares of the Company’s common stock upon achievement of certain performance goals during the performance period of January 1, 2013 through December 31, 2013. In March 2014, after the Company filed with the SEC its Annual Report on Form 10-K for the year ended December 31, 2013, the Compensation Committee determined the level of achievement of the performance goals (the “2013 Award Determination Date”), at which time it was determined that the designated participants had earned an aggregate of 124,300 shares of common stock. The earned shares were issued in April 2014, with 25% of the shares vested upon issuance and the remaining shares to vest 25% on each of the first three anniversaries of the 2013 Award Determination Date, subject to the continuous employment of the participant through such dates.

In February 2014, the Company granted 62,500 Performance Awards (“2014 Performance Awards”) to designated participants under the 2011 Plan. The 2014 Performance Awards represent the right to receive shares of the Company’s common stock upon achievement of certain performance goals during the performance period of January 1, 2014 through December 31, 2014. After the Company files with the SEC its Annual Report on Form 10-K for the year ending December 31, 2014, the Compensation Committee will determine the level of achievement of the performance goals (the “2014 Award Determination Date”), at which time the designated participants may earn between zero and 2.5 shares of common stock for each 2014 Performance Award. Shares of common stock earned, if any, will be issued after the 2014 Award Determination Date with 25% of the shares to vest upon issuance and the remaining shares to vest 25% on each of the first three anniversaries of the 2014 Award Determination Date, subject to the continuous employment of the participant through such dates. As of December 31, 2014, the Company expects that each award will convert to 1.9 shares of common stock on the 2014 Award Determination Date.

In December 2014, the Company granted Sigmund Anderman, then Chief Executive Officer and current Chairman of the Board of Directors of the Company, an option to purchase 76,648 shares of Company common stock and 37,203 performance-vesting RSUs. Each of the options will have a four-year, employment-based vesting schedule with the first 25% total number of shares vested on the first anniversary of the grant date and 1/48th of the original number of shares on each monthly anniversary. Each of the performance-vesting RSUs will vest based upon the achievement of the corporate goals for fiscal year 2015 and continued employment. On the date the board of directors or the compensation committee certifies the achievement of the Company’s corporate goals for fiscal year 2015 (the “2015 RSU Determination Date”), Mr. Anderman may earn up to 2.0 shares of common stock for each of the performance-vesting RSUs. 25% of the total number of performance-vesting RSUs will vest and be issued on the 2015 RSU Determination Date, and the remaining shares will vest and be issued 25% on each of December 31, 2016, 2017 and 2018, subject to the continuous employment of Mr. Anderman through such dates.

The following table summarizes the Company’s RSU and Performance Award activity:

	RSUs		Performance Awards and performance-vesting RSUs	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at December 31, 2011	—	—	—	—
Granted	50,000	8.90	588,000	25.79
Released	(9,375)	8.90	—	—
Forfeited or expired	—	—	—	—
Outstanding at December 31, 2012	40,625	8.90	588,000	25.79
Granted	301,767	24.78	124,300	19.60
Released	(20,000)	14.71	(147,000)	25.79

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Forfeited or expired	(65,014)	24.62	—	—
Outstanding at December 31, 2013	257,378	23.10	565,300	24.43
Granted	525,063	28.85	155,953	24.93
Released	(84,682)	22.56	(178,076)	24.71
Forfeited or expired	(111,901)	29.02	(58,000)	24.91
Outstanding at December 31, 2014	585,858	\$27.20	485,177	\$26.02
Ending vested and expected to vest at December 31, 2014	495,006		485,177	

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RSUs and Performance Awards that are expected to vest are net of estimated future forfeitures. RSUs released during the years ended December 31, 2014 and 2013 had an aggregate intrinsic value of \$2.6 million and \$0.5 million, respectively, and an aggregate grant-date fair value of \$1.9 million and \$0.3 million, respectively. Performance Awards released during the years ended December 31, 2014 and 2013 had an aggregate intrinsic value of \$5.9 million and \$4.5 million, respectively, and an aggregate grant-date fair value of \$4.4 million and \$3.8 million, respectively. The number of RSUs released includes shares that the Company withheld on behalf of employees to satisfy the minimum statutory tax withholding requirements.

As of December 31, 2014, total unrecognized compensation expense related to unvested RSUs and Performance Awards was \$17.7 million and is expected to be recognized over a weighted average period of 2.6 years.

Subsequent to year-end, in January 2015, the Company granted Mr. Anderman an option to purchase 71,648 shares of Company common stock and 34,714 performance-vesting RSUs. Each of the options will have a four-year, employment-based vesting schedule with the first 25% total number of shares vested on the first anniversary and 1/48th of the original number of shares on each monthly anniversary. Each of the performance-vesting RSUs will vest based upon the achievement of the corporate goals for fiscal year 2015 and continued employment. On the 2015 RSU Determination Date, Mr. Anderman may earn up to 2.0 shares of common stock for each of the performance-vesting RSUs. 25% of the total number of performance-vesting RSUs will vest and be issued on a Determination Date, and the remaining shares will vest and be issued 25% on each of December 31, 2016, 2017 and 2018, subject to the continuous employment of Mr. Anderman through such dates.

Subsequent to year-end, in February 2015, the Company granted 24,766 Performance Awards (“2015 Performance Awards”) to designated participants under the 2011 Plan. The 2015 Performance Awards represent the right to receive shares of the Company’s common stock upon achievement of certain performance goals during the performance period of January 1, 2015 through December 31, 2015. After the Company files with the SEC its Annual Report on Form 10-K for the year ending December 31, 2015, the Compensation Committee will determine the level of achievement of the performance goals (the “2015 Award Determination Date”), at which time the designated participants may earn between zero and 2.0 shares of common stock for each 2015 Performance Award. Shares of common stock earned, if any, will be issued after the 2015 Award Determination Date with 25% of the shares to vest upon issuance and the remaining shares to vest 25% on each of the first three anniversaries of the 2015 Award Determination Date, subject to the continuous employment of the participant through such dates.

Stock Awards Issued to Non-employees

During the year ended December 31, 2014, the Company granted 5,931 RSUs to individual consultants at a weighted average grant date fair value of \$25.30 per share. During the year ended December 31, 2013, the Company granted options to purchase approximately 6,000 shares of common stock to individual consultants at a weighted average exercise price of \$28.00 per share.

The RSUs and options were granted in exchange for consulting services. The RSUs and options each vest over a period of two years. These awards were granted under the 2011 Plan and are included in the RSU and option tables above. The RSUs and options issued to consultants are remeasured to fair value at the end of each accounting period. The Company recorded expense related to the issuance of RSUs and options to consultants of \$0.2 million and \$0.2 million in each of the years ended December 31, 2014 and 2013.

Employee Stock Purchase Plan

Under the ESPP, qualified employees are permitted to purchase the Company’s common stock at 85% of the fair market value of the common stock as of the commencement date of the offering period or as of the specified purchase date, whichever is lower. The ESPP is deemed compensatory and stock-based compensation is recognized in accordance with ASC 718, Stock Compensation.

The ESPP is designed to allow eligible employees and the eligible employees of the Company’s participating subsidiaries to purchase shares of common stock, at semi-annual intervals, with their accumulated payroll deductions. The maximum aggregate number of shares which may be issued over the term of the ESPP is the sum of (a) 666,666 shares of common stock and (b) an annual increase on the first day of each year beginning in 2012 and ending in 2021, equal to the least of (i) 1,666,666 shares of common stock, (ii) one percent (1%) of the shares of common stock outstanding (on an as converted basis) on the last day of the immediately preceding fiscal year and (iii) such smaller number of shares of common stock as determined by the board of directors, which may be either authorized but

unissued common stock or reacquired common stock, including shares of common stock purchased on the open market. In addition, no participant shall be permitted to participate in the ESPP if: (i) immediately after his or her election to participate, the participant would control 5% or more of the total combined voting power or value of all classes of the stock of the Company or any of its affiliates, or (ii) under the terms of the ESPP, the rights of the participant to purchase the Company's common stock under the ESPP and all of its other qualified employee stock purchase plans

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or those of the Company's affiliates would accrue at a rate exceeding \$25,000 of fair market value of the common stock for each calendar year for which such right is outstanding at any time.

The weighted-average grant-date fair value of awards issued pursuant to the ESPP during the years ended December 31, 2014 and 2013 were \$7.71 and \$5.24 per share, respectively.

For the years ended December 31, 2014 and 2013, employees purchased 102,111 and 109,270 shares under the ESPP for a total of \$2.6 million and \$1.9 million, respectively. As of December 31, 2014, unrecognized compensation cost related to the current ESPP period which ends on February 27, 2015 was approximately \$0.2 million and is expected to be recognized over the next 2 months.

Stock-Based Compensation Expense

Total stock-based compensation expense recognized by the Company consisted of:

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
Stock-based compensation by category of expense:			
Cost of revenues	\$1,579	\$745	\$271
Sales and marketing	1,562	1,041	467
Research and development	3,672	3,469	1,552
General and administrative	7,735	9,004	4,559
	\$14,548	\$14,259	\$6,849

The Company capitalized \$0.5 million and \$0.1 million of stock compensation costs as software and website application development costs for the years ended December 31, 2014 and 2013, respectively. The Company did not capitalize any stock-based compensation for the year ended December 31, 2012 as such amounts were insignificant.

Valuation Information

The fair value of stock options and stock purchase rights granted under the 2009 Plan, the 2011 Plan and the ESPP were estimated at the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	Year ended December 31,		
	2014	2013	2012
Stock option plans:			
Risk-free interest rate	1.55-2.02 %	0.95-1.87 %	0.74-1.10 %
Expected life of options (in years)	5.27-6.08	5.27-6.08	5.27-6.08
Expected dividend yield	— %	— %	— %
Volatility	49-53 %	50-52 %	52-59 %
Employee Stock Purchase Plan:			
Risk-free interest rate	0.05-0.08 %	0.05-0.13 %	0.13-0.14 %
Expected life of options (in years)	0.5	0.5	0.5
Expected dividend yield	— %	— %	— %
Volatility	38-39 %	36-37 %	37-47 %

Due to the Company's limited trading history as a publicly held company, the simplified method was used to estimate the expected term of options granted by taking the average of the vesting term and the contractual term of the option. To estimate volatility, management identified a group of publicly traded peer companies that operate in a similar industry. An estimate was determined based on a weighted average of the historical volatilities of these peer companies and the Company's common stock during the period of time since the Company's initial public offering. The risk-free interest rate used was the Federal Reserve Bank's constant maturities interest rate commensurate with the expected life of the options. The expected dividend yield was zero, as the Company does not anticipate paying a dividend within the relevant time frame.

NOTE 11—Employee Benefit Plan

The Company offers a qualified 401(k) defined contribution plan to substantially all of the Company's employees. Eligible employees may contribute up to 15% of their pretax annual compensation, up to the amount allowed pursuant to the Internal Revenue Code. In the years ended December 31, 2014, 2013 and 2012, the Company matched 50% of each dollar of employee contribution, up to a maximum match of three percent of the employee's compensation. The Company's contributions to the 401(k) plan for the years ended December 31, 2014, 2013 and 2012 were \$1.3 million, \$0.9 million and \$0.7 million, respectively, which were recognized as expense in the consolidated statements of comprehensive income.

NOTE 12—Related Party Transactions

A related party is generally defined as (i) any person that holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Director Carl Buccellato served as the chief executive officer of SavingStreet, LLC (formerly New Casa 188, LLC) ("SavingStreet"), from May 2008 until February 2012, and owns 32% of the membership interests of SavingStreet. During 2008, the Company entered into a strategic relationship agreement with SavingStreet (which was subsequently amended and restated on June 15, 2010) pursuant to which the Company provided to SavingStreet certain information from borrowers who consented to the distribution of such information, SavingStreet used this borrower information to market certain move-related and home ownership-related products and services and the Company was entitled to receive 20% of SavingStreet's net income until investors had recouped their initial investment, and then 50% of its net income thereafter. In connection with this transaction, the Company issued to SavingStreet a five-year warrant to purchase up to 133,333 shares of its common stock at \$5.94 per share. In March 2012, the Company terminated its existing agreements and arrangements with SavingStreet and the warrant expired unvested on December 31, 2012.

NOTE 13—Segment Information

The Company has concluded that it operates in one industry—mortgage-related software and services. The Company's chief operating decision maker is its chief executive officer, who reviews financial information presented on a consolidated basis. Accordingly, the Company has determined that it has a single reporting segment and operating unit structure, specifically technology-enabled solutions to help streamline and automate the mortgage origination process for its network participants.

The Company is organized primarily on the basis of service lines. Supplemental disclosure of revenues by type is as follows:

	Year ended December 31,		
	2014	2013	2012
	(in thousands)		
On-demand revenues	\$154,315	\$118,555	\$89,251
On-premise revenues	7,222	9,926	12,594
	\$161,537	\$128,481	\$101,845

In the notes to our consolidated financial statements on our Annual Reports on Form 10-K for the years ended December 31, 2013 and 2012, the Company included all revenues from professional services in on-premise revenues in its disclosure related to revenues by type. For the year ended December 31, 2014, we included professional services revenues in either on-demand revenues or on-premise revenues as determined by the related service or software license revenue. The Company has retrospectively reclassified its disclosure of on-demand and on-premise revenues for the years ended December 31, 2013 and 2012 in order to conform to the current presentation.

NOTE 14—Quarterly Results of Operations Data (Unaudited)

	Three months ended							
	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
	(unaudited, in thousands, except per share amounts)							
Revenues	\$46,577	\$42,798	\$39,984	\$32,178	\$30,350	\$33,006	\$34,270	\$30,855
Cost of revenues (1)	14,720	11,669	10,576	9,318	8,154	8,288	8,577	7,611
Gross profit	31,857	31,129	29,408	22,860	22,196	24,718	25,693	23,244
Operating expenses								
Sales and marketing (1)	7,753	6,245	6,451	6,095	6,098	5,163	5,167	4,903
Research and development (1)	8,880	6,456	6,077	6,815	6,044	6,573	6,530	5,548
General and administrative (1)	11,261	9,556	9,551	8,993	7,745	7,547	7,975	7,586
Total operating expenses	27,894	22,257	22,079	21,903	19,887	19,283	19,672	18,037
Income from operations	3,963	8,872	7,329	957	2,309	5,435	6,021	5,207
Other income, net	145	134	109	100	105	83	151	121
Income before income taxes	4,108	9,006	7,438	1,057	2,414	5,518	6,172	5,328
Income tax provision	(192)	3,989	2,714	275	703	1,872	2,269	1,270
Net income	\$4,300	\$5,017	\$4,724	\$782	\$1,711	\$3,646	\$3,903	\$4,058
Net income per share								
Basic	\$0.15	\$0.18	\$0.17	\$0.03	\$0.06	\$0.14	\$0.15	\$0.16
Diluted	\$0.14	\$0.17	\$0.16	\$0.03	\$0.06	\$0.13	\$0.14	\$0.15
Weighted average common shares used in computing net income per share of common stock:								
Basic	28,457	28,008	27,617	27,339	27,099	26,682	26,369	26,166
Diluted	30,068	29,661	29,289	29,070	28,902	28,623	28,282	27,962
Net income	\$4,300	\$5,017	\$4,724	\$782	\$1,711	\$3,646	\$3,903	\$4,058
Other comprehensive income, net of taxes								
Unrealized gain (loss) on investments	(58)	(75)	75	(3)	17	137	(28)	(95)
Comprehensive income	\$4,242	\$4,942	\$4,799	\$779	\$1,728	\$3,783	\$3,875	\$3,963
(1) Stock-based compensation included in the above line items:								
	Three months ended							
	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013
	(unaudited, in thousands)							
Cost of revenues	\$514	\$441	\$386	\$238	\$260	\$215	\$171	\$99
Sales and marketing	435	247	547	333	333	322	250	136
Research and development	1,062	1,038	836	736	893	948	943	685
General and administrative	1,997	1,326	2,409	2,003	1,878	1,902	2,771	2,453
Total	\$4,008	\$3,052	\$4,178	\$3,310	\$3,364	\$3,387	\$4,135	\$3,373

SCHEDULE II
 VALUATION AND QUALIFYING ACCOUNTS
 FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 and 2012
 (in thousands)

	Balance at Beginning of Period	Charged (Credited) to Income	Deductions and Other	Balance at End of Period
Allowance for Doubtful Accounts				
Year ended December 31, 2014	\$81	\$(1)	\$(14)	(a) \$66
Year ended December 31, 2013	\$74	\$32	\$(25)	(a) \$81
Year ended December 31, 2012	\$47	\$70	\$(43)	(a) \$74
Income Tax Valuation Allowance				
Year ended December 31, 2014	\$2,056	\$—	\$841	(b) \$2,897
Year ended December 31, 2013	\$1,760	\$—	\$296	(b) \$2,056
Year ended December 31, 2012	\$8,237	\$(6,582)	\$105	(b) \$1,760

(a) Accounts written off, net of recoveries.

(b) Adjustments to offset changes in deferred tax assets.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. GAAP.

Management assessed our internal control over financial reporting as of December 31, 2014, the end of our fiscal year. Management based its assessment on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies and our overall control environment.

Based on management's assessment, they have concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. GAAP. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors. In accordance with guidance issued by the SEC, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting for the first fiscal year in which the acquisition occurred. Our management's evaluation of internal control over financial reporting excluded the internal control activities of Mortgage Resource Center, Inc. (dba AllRegs), which we acquired on October 1, 2014, as discussed in Note 5, "Acquisitions," in the Notes to Consolidated Financial Statements. We have included the financial results of AllRegs in the consolidated financial statements from the date of acquisition. Total revenues subject to AllRegs's internal control over financial reporting represented less than 2% percent of our consolidated total revenues for the year ended December 31, 2014.

Our independent registered public accounting firm, Grant Thornton LLP, independently assessed the effectiveness of the company's internal control over financial reporting, as stated in their attestation report, which is included in Part II, Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2015 Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information under the captions “Election of Directors,” “Director Compensation,” “Compensation Discussion and Analysis” and “Report of the Compensation Committee of the Board of Directors on Executive Compensation” in our 2015 Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in our 2015 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information under the captions “Election of Directors” and “Certain Relationships and Related Transactions” in our 2015 Proxy Statement is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the caption “Ratification of Selection of Independent Registered Public Accounting Firm” in our 2015 Proxy Statement is incorporated herein by reference.

With the exception of the information specifically incorporated by reference in Part III to this Annual Report on Form 10-K from our 2015 Proxy Statement, our 2015 Proxy Statement shall not be deemed to be filed as part of this report.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) (1) Financial Statements—The financial statements filed as part of this report are listed on the Index to Consolidated Financial Statements in Item 8.
- (2) Financial Statement Schedules—The financial statement schedules filed as part of this report are listed on the Index to Consolidated Financial Statements in Item 8.

(b) Exhibits.

Reference is made to the Exhibit Index attached hereto.

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELLIE MAE, INC.

Date: March 2, 2015

By: /s/ Edgar A. Luce
Edgar A. Luce
Executive Vice President, Finance and Administration and
Chief Financial Officer
(Principal Financial and Accounting Officer and duly authorized
signatory)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose individual signature appears below hereby authorizes and appoints Jonathan Corr and Edgar A. Luce, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his or her true and lawful attorney-in-fact and agent to act in his or her name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jonathan Corr Jonathan Corr	Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2015
/s/ Edgar A. Luce Edgar A. Luce	Executive Vice President, Finance and Administration and Chief Financial Officer (principal financial and accounting officer)	March 2, 2015
/s/ Sigmund Anderman Sigmund Anderman	Executive Chairman and Director	March 2, 2015
/s/ Carl Buccellato Carl Buccellato	Director	March 2, 2015
/s/ Craig Davis Craig Davis	Director	March 2, 2015
/s/ A. Barr Dolan A. Barr Dolan	Director	March 2, 2015
/s/ Alan S. Henricks Alan S. Henricks	Director	March 2, 2015
/s/ Robert J. Levin Robert J. Levin	Director	March 2, 2015
/s/ Marina Levinson Marina Levinson	Director	March 2, 2015
/s/ Bernard M. Notas Bernard M. Notas	Director	March 2, 2015
/s/ Frank Schultz Frank Schultz	Director	March 2, 2015
/s/ Jeb Spencer Jeb Spencer	Director	March 2, 2015

INDEX TO EXHIBITS

Exhibit Number	Description of Document	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
2.1	Stock Purchase Agreement, dated as of August 15, 2011, by and among Ellie Mae, Inc., Northgate Private Equity Partners III, L.P., NPEP III-Q, L.L.C., TVC Capital L.P., TVC Capital 12-4-0 Fund L.P., TVC Capital Partners L.P., TVC Capital, LLC, as Sellers' Representative, and certain listed management employees of Del Mar Datatrac, Inc.	8-K	8/15/2011	2.1	
2.2	Asset Purchase Agreement, dated as of August 7, 2014, by and among Ellie Mae, Inc., Mortgage Resource Center, Inc. (d/b/a AllRegs) and Glenn Ford.	10-Q	11/6/2014	10.1	
3.1	Amended and Restated Certificate of Incorporation of Ellie Mae, Inc.	8-K	4/20/2011	3.1	
3.2	Amended and Restated Bylaws of Ellie Mae, Inc.	10-Q	11/6/2014	10.4	
4.1	Form of Ellie Mae, Inc.'s Common Stock Certificate.	S-1/A	2/17/2011	4.1	
4.2	Form of Indenture.	S-3	6/7/2012	4.8	
10.1	Lease, dated as of July 17, 2014, by and between Ellie Mae, Inc. and SFI PLEASANTON, LLC.	10-Q	11/6/2014	10.2	
10.2	Sublease, dated as of July 30, 2007, by and between Ellie Mae, Inc. and ADP Pleasanton National Service Center, Inc.	S-1	4/30/2010	10.11	
10.3	SAVVIS Master Services Agreement, dated as of December 15, 2006, by and between Ellie Mae, Inc. and SAVVIS Communications Corporation.	S-1	4/30/2010	10.12	
10.4±	Form of Indemnification Agreement by and between Ellie Mae, Inc. and each of its directors and executive officers.	S-1/A	8/5/2010	10.3	
10.5±	Form of Change of Control Severance Agreement by and between Ellie Mae, Inc. and each of Jonathan Corr, Limin Hu and Edgar Luce.				X
10.6±	Fourth Amended and Restated Employment Agreement, dated as of January 5, 2015, by and between Ellie Mae, Inc. and Sigmund Anderman.	8-K	1/5/2015	10.1	
10.7±	Employment Agreement, dated as of January 5, 2015, by and between Ellie Mae, Inc. and Jonathan H. Corr.	8-K	1/5/2015	10.2	
10.8±	Offer Letter, dated as of July 14, 2005, by and between Ellie Mae, Inc. and Edgar Luce.	S-1	4/30/2010	10.7	

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10.9±	Board of Directors Offer Letter with Marina Levinson, dated as of August 22, 2014.	10-Q	11/6/2014	10.5
10.10±	Ellie Mae, Inc. 2009 Stock Option and Incentive Plan, including the form of stock option agreement.	S-1	4/30/2010	10.2

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Exhibit Number	Description of Document	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.11±	Amendment to the Ellie Mae, Inc. 2009 Stock Option and Incentive Plan, effective April 15, 2010.	S-1/A	2/17/2011	10.24	
10.12±	Amendment to the Ellie Mae, Inc. 2009 Stock Option and Incentive Plan, effective September 16, 2010.	S-1/A	2/17/2011	10.25	
10.13±	Ellie Mae, Inc. 2011 Equity Incentive Award Plan.	S-8	5/25/2011	10.5	
10.14(a)±	Form of Stock Option Grant Notice and Stock Option Agreement for Awards under the Ellie Mae, Inc. 2011 Equity Incentive Award Plan (used until January 1, 2015).	S-8	5/25/2011	10.6	
10.14(b)±	Form of Stock Option Grant Notice and Stock Option Agreement for Awards under the Ellie Mae, Inc. 2011 Equity Incentive Award Plan (used for employees who are not executive officers beginning January 1, 2015).	S-8	2/10/2015	10.2(b)	
10.14(c)±	Form of Stock Option Grant Notice and Stock Option Agreement for Awards under the Ellie Mae, Inc. 2011 Equity Incentive Award Plan (used for executive officers and directors beginning January 1, 2015).	S-8	2/10/2015	10.2(c)	
10.14(d)±	Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement for Awards under the Ellie Mae, Inc. 2011 Equity Incentive Award Plan (used until January 1, 2015).	S-8	5/25/2011	10.7	
10.14(e)±	Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement for Awards under the Ellie Mae, Inc. 2011 Equity Incentive Plan (used for employees who are not executive officers beginning January 1, 2015).	S-8	2/10/2015	10.3(b)	
10.14(f)±	Form of Restricted Stock Unit Award Grant Notice and Restricted Stock Unit Award Agreement for Awards under the Ellie Mae, Inc. 2011 Equity Incentive Plan (used for executive officers and directors beginning January 1, 2015).	S-8	2/10/2015	10.3(c)	
10.15±	Ellie Mae, Inc. Employee Stock Purchase Plan.	S-8	5/25/2011	10.8	
10.16(a)±	Ellie Mae, Inc. Senior Executive Performance Share Program.	10-Q	11/8/2012	10.1	
10.16(b)±	Form of Notice of Grant of and Agreement for Performance Shares for Senior Executives under the Ellie Mae, Inc. Senior Executive Performance Share Program and Ellie Mae, Inc. 2011 Equity Incentive Award Plan.	10-Q	11/8/2012	10.2	
10.17(a)±		10-Q	5/7/2013	10.1	

Ellie Mae, Inc. 2013 Senior Executive Performance Share Program.

10.17(b)±	Form of Notice of Grant of and Grant Agreement for Performance Shares for Senior Executives under the Ellie Mae, Inc. 2013 Senior Executive Performance Share Program and Ellie Mae, Inc. 2011 Equity Incentive Award Plan.	10-Q	5/7/2013	10.2
10.18(a)±	Ellie Mae, Inc. 2014 Senior Executive Performance Share Program.	10-K	3/14/2014	10.20

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Exhibit Number	Description of Document	Incorporated by Reference			Filed Herewith
		Form	Date	Number	
10.18(b)±	Form of Notice of Grant of and Grant Agreement for Performance Shares for Senior Executives under the Ellie Mae, Inc. 2014 Senior Executive Performance Share Program and Ellie Mae, Inc. 2011 Equity Incentive Award Plan.	10-K	3/14/2014	10.21	
10.19±	Non-Employee Director Equity Compensation Policy.	10-Q	11/6/2014	10.3	
10.20±	Separation and Release Agreement, dated as of June 30, 2014, by and between the Ellie Mae, Inc. and Elisa Lee.	10-Q	8/6/2014	10.1	
21.1	List of subsidiaries.	10-K	3/1/2013	21.1	
23.1	Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm.				X
24.1	Power of Attorney (included on signature page to this Annual Report on Form 10-K).				X
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				X

* Exhibits 32.1 and 32.2 are being furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Securities

Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise specifically stated in such filing.

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Exhibit Number	Description of Document	Incorporated by Reference			Filed
		Form	Date	Number	Herewith
	± Indicates management contract or compensatory plan, contract or arrangement.				