ACORDA THERAPEUTICS INC
Form 10-Q
May 08, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission File Number 000-50513

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller Reporting Company o
(Do not check if a

smaller reporting
company)

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

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

Class	Outstanding at April 30, 2015
Common Stock, $0.001 par value per share	42,790,888 shares

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

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

ACORDA THERAPEUTICS, INC.
TABLE OF CONTENTS

PART I

Item 1. Financial Statements

ACORDA THERAPEUTICS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$61,515	$ 182,170
Restricted cash	1,243	1,205
Short-term investments	238,182	125,448
Trade accounts receivable, net of allowances of $739 and $771, as of March 31, 2015 and December 31, 2014, respectively	30,551	32,211
Prepaid expenses	19,050	15,523
Finished goods inventory held by the Company	45,268	26,256
Finished goods inventory held by others	563	581
Deferred tax asset	20,469	18,420
Other current assets	6,995	7,324
Total current assets	423,836	409,138
Property and equipment, net of accumulated depreciation	45,919	46,090
Goodwill	182,952	182,952
Intangible assets, net of accumulated amortization	432,155	432,822
Non-current portion of deferred cost of license revenue	3,381	3,540
Restricted cash	4,809	—
Other assets	5,930	6,137
Total assets	$1,098,982	$ 1,080,679
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$21,886	$ 17,751
Accrued expenses and other current liabilities	60,208	56,118
Deferred product revenue—Zanaflex	29,121	29,420
Current portion of deferred license revenue	9,057	9,057
Current portion of revenue interest liability	749	893
Current portion of convertible notes payable	1,144	1,144
Total current liabilities	122,165	114,383
Convertible senior notes (due 2021)	289,607	287,699
Acquired contingent consideration	55,700	52,600
Non-current portion of deferred license revenue	48,306	50,570
Non-current portion of convertible notes payable	1,058	2,184
Deferred tax liability	23,885	23,885

Other non-current liabilities	9,241	9,103
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value. Authorized 80,000,000 shares at March 31, 2015 and December 31, 2014; issued and outstanding 42,797,996 and 41,883,843 shares, including those held in treasury, as of March 31, 2015 and December 31, 2014, respectively	43	42
Treasury stock at cost (12,420 shares at March 31, 2015 and December 31, 2014)	(329)	(329)
Additional paid-in capital	772,892	761,026
Accumulated deficit	(223,495)	(220,410)
Accumulated other comprehensive income	(91)	(74)
Total stockholders' equity	549,020	540,255
Total liabilities and stockholders' equity	$1,098,982	$ 1,080,679

See accompanying Unaudited Notes to Consolidated Financial Statements

ACORDA THERAPEUTICS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(unaudited)

(In thousands, except per share data)	Three-month period ended March 31, 2015	Three-month period ended March 31, 2014
Revenues:		
Net product revenues	$ 93,500	$ 74,463
Royalty revenues	4,087	3,791
License revenue	2,264	2,264
Total net revenues	99,851	80,518
Costs and expenses:		
Cost of sales	18,446	15,529
Cost of license revenue	159	159
Research and development	30,636	14,522
Selling, general and administrative	48,769	46,892
Changes in fair value of acquired contingent consideration	3,100	—
Total operating expenses	101,110	77,102
Operating (loss) income	(1,259)	3,416
Other (expense) income, net:		
Interest and amortization of debt discount expense	(4,051)	(92)
Interest income	66	172
Other income	121	—
Total other (expense) income, net	(3,864)	80
(Loss) income before taxes	(5,123)	3,496
(Provision for) benefit from income taxes	2,038	(2,793)
Net (loss) income	$ (3,085)	$ 703
Net (loss) income per share—basic	$ (0.07)	$ 0.02
Net (loss) income per share—diluted	$ (0.07)	$ 0.02
Weighted average common shares outstanding used in computing net (loss) income per share—basic	42,031	40,934
Weighted average common shares outstanding used in computing net (loss) income per share—diluted	42,031	42,235

See accompanying Unaudited Notes to Consolidated Financial Statements

2

ACORDA THERAPEUTICS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

(In thousands)	Three-month period ended March 31, 2015	Three-month period ended March 31, 2014
Net (loss) income	$ (3,085)	$ 703
Other comprehensive (loss) income:		
Unrealized (losses) gains on available-for-sale securities, net of tax	(17)	45
Other comprehensive (loss) income, net of tax	(17)	45
Comprehensive (loss) income	$ (3,102)	$ 748

See accompanying Unaudited Notes to Consolidated Financial Statements

ACORDA THERAPEUTICS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

(In thousands)	Three-month period ended March 31, 2015	Three-month period ended March 31, 2014
Cash flows from operating activities:		
Net (loss) income	$ (3,085)	$ 703
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Share-based compensation expense	7,126	5,757
Amortization of net premiums and discounts on investments	551	735
Amortization of debt discount and debt issuance costs	2,103	—
Amortization of revenue interest issuance cost	6	8
Depreciation and amortization expense	3,707	1,759
Change in acquired contingent consideration obligation	3,100	—
Loss on put/call liability	—	20
Deferred tax (benefit) provision	(2,038)	2,821
Changes in assets and liabilities:		
Decrease in accounts receivable	1,659	1,518
(Increase) decrease in prepaid expenses and other current assets	(3,198)	1,031
Increase in inventory held by the Company	(19,013)	(5,010)
Decrease in inventory held by others	17	28
Decrease in non-current portion of deferred cost of license revenue	159	159
Decrease in other assets	8	8
Increase (decrease) in accounts payable, accrued expenses, other current liabilities	7,099	(1,774)
Decrease in revenue interest liability interest payable	(41)	(348)
Decrease in non-current portion of deferred license revenue	(2,264)	(2,264)
Increase in other non-current liabilities	—	9
Decrease in deferred product revenue—Zanaflex	(300)	(873)
(Increase) decrease in restricted cash	(4,846)	18
Net cash (used in) provided by operating activities	(9,250)	4,305
Cash flows from investing activities:		
Purchases of property and equipment	(2,571)	(942)
Purchases of intangible assets	(152)	(1,198)
Purchases of investments	(169,563)	(93,797)
Proceeds from maturities of investments	56,250	84,500
Net cash used in investing activities	(116,036)	(11,437)
Cash flows from financing activities:		
Proceeds from issuance of common stock and option exercises	4,741	3,662
Repayments of revenue interest liability	(110)	(212)
Net cash provided by financing activities	4,631	3,450

Net (decrease) in cash and cash equivalents	(120,655)	(3,682)
Cash and cash equivalents at beginning of period	182,170	48,037
Cash and cash equivalents at end of period	$ 61,515	$ 44,355
Supplemental disclosure:		
Cash paid for interest	463	415
Cash paid for taxes	743	460

See accompanying Unaudited Notes to Consolidated Financial Statements

ACORDA THERAPEUTICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(unaudited)

(1) Organization and Business Activities

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

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

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

(2) Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

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

Investments

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

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

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

Accumulated Other Comprehensive Income

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

Revenue Recognition

Ampyra

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

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

Zanaflex

The Company applies the revenue recognition guidance in Accounting Standards Codification (ASC) 605-15-25, which among other criteria requires that future returns can be reasonably estimated in order to recognize revenue. The amount of future tablet returns is uncertain due to generic competition and customer conversion to Zanaflex Capsules.

The Company has accumulated some sales history with Zanaflex Capsules; however, due to existing and potential generic competition and customer conversion from Zanaflex tablets to Zanaflex Capsules, management is unable to determine a return rate at this time. As a result, the Company accounts for these product shipments using a deferred revenue recognition model. Under the deferred revenue model, the Company does not recognize revenue upon product shipment. For these product shipments, the Company invoices the wholesaler, records deferred revenue at gross invoice sales price, and classifies the cost basis of the product held by the wholesaler as a separate component of inventory. The Company recognizes revenue when prescribed to the end-user, on a first-in first-out (FIFO) basis. The Company's revenue to be recognized is based on (1) the estimated prescription demand, based on pharmacy sales for its products; and (2) the Company's analysis of third-party information, including third-party market research data. The Company's estimates are subject to the inherent limitations of estimates that rely on third-party data, as certain third-party information is itself in the form of estimates, and reflect other limitations. The Company's sales and revenue recognition reflects the Company's estimates of actual product prescribed to the end-user. The Company expects to be able to apply a more traditional revenue recognition policy such that revenue is recognized following shipment to the customer when it believes it has sufficient data to develop reasonable estimates of expected returns based upon historical returns and greater certainty regarding generic competition.

The Company's net revenues represent total revenues less allowances for customer credits, including estimated discounts, rebates, and chargebacks. These allowances are recorded for cash consideration given by a vendor to a customer that is presumed to be a reduction of the selling prices of the vendor's products or services and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's statement of operations. Adjustments are recorded for estimated discounts, rebates and chargebacks. These allowances are established by management as its best estimate based on available information and are adjusted to reflect known changes in the factors that impact such allowances. Allowances for discounts, rebates and chargebacks are established based on the contractual terms with customers, analysis of historical levels of discounts, rebates and chargebacks, 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. In addition, the Company records a charge to cost of goods sold for the cost basis of the estimated product returns the Company believes may ultimately be realized at the time of product shipment to wholesalers. The Company has recognized this charge at the date of shipment since it is probable that it will receive a level of returned products; upon the return of such product it will be unable to resell the product considering its expiration dating; and it can reasonably estimate a range of returns. This charge represents the cost basis for the low end of the range of the Company's estimated returns. Product shipping and handling costs are included in cost of sales.

Qutenza

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

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

Milestones and royalties

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

In-Process Research and Development

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

Contingent Consideration

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

Goodwill

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

Collaborations

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

Concentration of Credit Risk

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

Segment and Geographic Information

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

Subsequent Events

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

Recent Accounting Pronouncements

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

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

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

(3) Acquisitions

Civitas Therapeutics, Inc. Acquisition

On October 22, 2014, the Company completed the acquisition of Civitas Therapeutics, Inc., a Delaware corporation (Civitas). As a result of the acquisition, the Company acquired global rights to CVT-301, a Phase 3 treatment candidate for OFF episodes of Parkinson's disease. The acquisition of Civitas also included rights to Civitas's proprietary ARCUS pulmonary delivery technology, which management believes has applications in multiple disease areas, and a subleased manufacturing facility in Chelsea, Massachusetts with commercial-scale capabilities. The approximately 90,000 square foot facility also includes office and laboratory space. Approximately 45 Civitas employees based at the Chelsea facility joined the Acorda workforce in connection with the acquisition.

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

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

The fair value of consideration transferred totaled approximately $529.5 million summarized as follows:

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

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

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

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

The following table presents the preliminary allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date:

(In thousands)	
Current assets	$54,911
Property and equipment	27,913
Identifiable intangible assets:	
In-process research and development	423,000
Other non-current assets	1,002
Current liabilities	(6,154)
Contingent consideration	(50,400)
Deferred taxes	(102,633)
Other non-current liabilities	(1,065)
Fair value of acquired assets and liabilities	346,574
Goodwill	182,952
Aggregate purchase price	529,526
Amount paid to extinguish long-term debt	(5,325)
Cash Paid	$524,201

The Company may update its preliminary acquisition accounting for provisional amounts for which the accounting is incomplete during the reporting period in which the acquisition occurred, and may continue to update the provisional amounts until the amounts are no longer provisional, but for no longer than one year from the date of the acquisition. Any updates to the fair value of consideration given or fair value assigned to assets acquired and liabilities assumed during the measurement period would be adjusted through goodwill.

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

The following table summarizes certain supplemental pro forma financial information for the three months ended March 31, 2015 and 2014 as if the acquisition of Civitas had occurred as of January 1, 2013. The unaudited pro forma financial information for the three months ended March 31, 2014 reflects (i) the impact to depreciation expense based on fair value adjustments to the property, plant and equipment acquired from Civitas; and (ii) the income tax benefit from Civitas net

10

loss at the Company's effective income tax rate at March 31, 2014. The unaudited pro forma financial information was prepared for comparative purposes only and is not necessarily indicative of what would have occurred had the acquisition been made at that time or of results which may occur in the future.

	Three Month Period ended March 31, 2015		Three Month Period ended March 31, 2014	
(In thousands)	Reported	Pro Forma	Reported	Pro Forma
Net revenues	$ 99,851	$ 99,851	$ 80,518	$ 80,518
Net (loss) income	(3,085)	(3,085)	703	(2,267)

(4) Share-based Compensation

During the three-month periods ended March 31, 2015 and 2014, the Company recognized share-based compensation expense of $7.1 million and $5.8 million, respectively. Activity in options and restricted stock during the three-month period ended March 31, 2015 and related balances outstanding as of that date are reflected below. The weighted average fair value per share of options granted to employees for the three-month periods ended March 31, 2015 and 2014 were approximately $16.25 and $18.81, respectively.

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

	For the three-month period ended March 31,	
(In thousands)	2015	2014
Research and development	$ 1,822	$ 1,104
Selling, general and administrative	5,304	4,653
Total	$ 7,126	$ 5,757

A summary of share-based compensation activity for the three-month period ended March 31, 2015 is presented below:

Stock Option Activity

	Number of Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value (In thousands)
Balance at January 1, 2015	7,786	$ 29.05		
Granted	1,285	36.13		
Cancelled	(24)	34.14		
Exercised	(191)	24.82		
Balance at March 31, 2015	8,856	$ 30.16	7.2	$ 40,889
	8,698	$ 30.06	7.1	$ 40,802

Vested and expected to vest at March 31, 2015						
Vested and exercisable at March 31, 2015	4,598	$	26.06	5.4	$	35,703

11

Restricted Stock Activity

(In thousands) Restricted Stock	Number of Shares
Nonvested at January 1, 2015	518
Granted	219
Vested	-
Forfeited	(2)
Nonvested at March 31, 2015	735

Unrecognized compensation cost for unvested stock options and restricted stock awards as of March 31, 2015 totaled $83.5 million and is expected to be recognized over a weighted average period of approximately 2.8 years.

(5) Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three-month periods ended March 31, 2015 and 2014:

(In thousands, except per share data)	Three-month period ended March 31, 2015	Three-month period ended March 31, 2014
Basic and diluted		
Net (loss) income	$ (3,085)	$ 703
Weighted average common shares outstanding used in computing net (loss) income per share—basic	42,031	40,934
Plus: net effect of dilutive stock options and restricted common shares	—	1,301
Weighted average common shares outstanding used in computing net (loss) income per share—diluted	42,031	42,235
Net (loss) income per share—basic	$ (0.07)	$ 0.02
Net (loss) income per share—diluted	$ (0.07)	$ 0.02

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

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

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

(In thousands)	Three-month period ended March 31, 2015	Three-month period ended March 31, 2014
Denominator		
Stock options and restricted common shares	3,300	2,764
Convertible note	19	29

Additionally, the impact of the convertible debt was determined to be anti-dilutive and excluded from the calculation of net income per diluted share.

(6) Income Taxes

For the three-month periods ended March 31, 2015 and 2014, the Company recorded a $2.0 million benefit from and $2.8 million provision for income taxes, respectively, based upon its estimated tax liability for the year. The benefit from/ provision for income taxes is based on federal, state and Puerto Rico income taxes. The effective income tax rates for the Company for the three-month periods ended March 31, 2015 and 2014 were 40% and 80%, respectively. As a result of the Federal research and development tax credit not being extended during the first quarter of 2015, the Company was not able to receive a benefit in the effective tax rate for this in 2015. The Company, however, was able to receive a benefit in the effective tax rate for 2015 for the Massachusetts state research and development tax credit in addition to the Federal orphan drug credit.

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

(7) Fair Value Measurements

The following table presents information about the Company’s assets and liabilities measured at fair value on a recurring basis as of March 31, 2015 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability. The Company’s Level 1 assets consist of time deposits and investments in a Treasury money market fund and the Company’s Level 2 assets consist of high-quality government bonds and are valued using observable market prices. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets and Level 2 assets are valued using quoted prices for similar assets and liabilities in active markets or other market observable inputs such as interest rates and yield curves. The Company’s Level 3 liabilities represent acquired contingent consideration related to the acquisition of Civitas and are valued using a probability weighted discounted cash flow valuation approach. No changes in valuation techniques or inputs occurred during the three months ended March 31, 2015. The estimated fair values of all of our financial instruments approximate their carrying values at March 31, 2015.

(In thousands)	Level 1	Level 2	Level 3
March 31, 2015			
Assets Carried at Fair Value:			
Cash equivalents	$ 45,393	$ —	$ —
Short-term investments	—	238,182	—
Liabilities Carried at Fair Value:			
Acquired contingent consideration	—	—	55,700
Put/call liability	—	—	—
December 31, 2014			
Assets Carried at Fair Value:			
Cash equivalents	$ 149,754	$ —	$ —

Short-term investments	—	125,448	—
Liabilities Carried at Fair Value:			
Acquired contingent consideration	—	—	52,600
Put/call liability	—	—	—

The fair value of the Company's convertible senior notes was approximately $351.7 million as of March 31, 2015. The Company estimates the fair value of its Notes utilizing market quotations for the debt (Level 2).

The following table presents additional information about liabilities measured at fair value on a recurring basis and for which the Company utilizes Level 3 inputs to determine fair value.

Acquired contingent consideration

(In thousands)	Three-month period ended March 31, 2015	Three-month period ended March 31, 2014
Acquired contingent consideration:		
Balance, beginning of period	$ 52,600	$ —
Fair value change to contingent consideration (unrealized) included in the statement of operations	3,100	—
Balance, end of period	$ 55,700	$ —

The Company estimates the fair value of its acquired contingent consideration using a probability weighted discounted cash flow valuation approach based on estimated future sales expected from CVT-301, a phase 3 candidate for the treatment of OFF episodes of Parkinson's Disease and CVT-427, a pre-clinical development stage product intended to provide relief from acute migraine episodes. Using this approach, expected future cash flows are calculated over the expected life of the agreement, are discounted, and then exercise scenario probabilities are applied. Some of the more significant assumptions made in the valuation include (i) the estimated CVT-301 and CVT 427 revenue forecasts, (ii) probabilities of success, and (iii) discount periods and rate. The probability of achievement of revenue milestones ranged from 28.5% to 70% with milestone payment outcomes ranging from $0 to $60 million in the aggregate for CVT-301 and CVT-427. The valuation is performed quarterly. Gains and losses are included in the statement of operations.

The acquired contingent consideration is classified as a Level 3 liability as its valuation requires substantial judgment and estimation of factors that are not currently observable in the market. If different assumptions were used for the various inputs to the valuation approach, including but not limited to, assumptions involving probability adjusted sales estimates for CVT-301 and CVT-427 and estimated discount rates, the estimated fair value could be significantly higher or lower than the fair value we determined.

(8) Investments

The Company has determined that all of its investments are classified as available-for-sale. Available-for-sale securities are carried at fair value with interest on these securities included in interest income and are recorded based primarily on quoted market prices. Available-for-sale securities consisted of the following:

(In thousands)	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
March 31, 2015				
US Treasury bonds	$ 238,204	$ 7	$ (29)	$ 238,182
December 31, 2014				
US Treasury bonds	125,443	14	(9)	125,448

The contractual maturities of short-term available-for-sale debt securities at March 31, 2015 and December 31, 2014 are greater than 3 months but less than 1 year. The Company has determined that there were no other-than-temporary declines in the fair values of its investments as of March 31, 2015.

Short-term investments with maturities of three months or less from date of purchase have been classified as cash equivalents, and amounted to $45.4 million and $149.8 million as of March 31, 2015 and December 31, 2014, respectively.

Unrealized holding gains and losses are reported within accumulated other comprehensive income (AOCI) in the statements of comprehensive income (loss). The changes in AOCI associated with the unrealized holding loss on available-for-sale investments during the three months ended March 31, 2015, were as follows (in thousands):

(In thousands)	Net Unrealized Gains on Marketable Securities
Balance at December 31, 2014	$ (74)
Other comprehensive income before reclassifications:	(17)
Amounts reclassified from accumulated other comprehensive income	—
Net current period other comprehensive income	(17)
Balance at March 31, 2015	$ (91)

(9) Collaborations, Alliances, and Other Agreements

Biogen

On June 30, 2009, the Company entered into an exclusive collaboration and license agreement with Biogen International GmbH (formerly Biogen Idec International GmbH), or Biogen to develop and commercialize Ampyra (known as Fampyra outside the U.S.) in markets outside the United States (the “Collaboration Agreement”). Under the Collaboration Agreement, Biogen was granted the exclusive right to commercialize Ampyra and other products containing aminopyridines developed under that agreement in all countries outside of the United States, which grant includes a sublicense of the Company’s rights under an existing license agreement between the Company and Alkermes plc (Alkermes), formerly Elan Corporation, plc (Elan). Biogen has responsibility for regulatory activities and future clinical development of Fampyra in ex-U.S. markets worldwide. The Company also entered into a related supply agreement with Biogen (the “Supply Agreement”), pursuant to which the Company will supply Biogen with its requirements for the licensed products through the Company’s existing supply agreement with Alkermes.

Under the Collaboration Agreement, the Company was entitled to an upfront payment of $110.0 million as of June 30, 2009, which was received in July 2009, and a $25.0 million milestone payment upon approval of the product in the European Union, which was received in August 2011. The Company is also entitled to receive additional payments of up to $10.0 million based on the successful achievement of future regulatory milestones and up to $365.0 million based on the successful achievement of future sales milestones. Due to the uncertainty surrounding the achievement of the future regulatory and sales milestones, these payments will not be recognized as revenue unless and until they are earned. The Company is not able to reasonably predict if and when the milestones will be achieved. Under the Collaboration Agreement, Biogen will be required to make double-digit tiered royalty payments to the Company on ex-U.S. sales. In addition, the consideration that Biogen will pay for licensed products under the Supply Agreement will reflect the price owed to the Company’s suppliers under its supply arrangements with Alkermes or other suppliers for ex-U.S. sales. The Company and Biogen may also carry out future joint development activities regarding licensed product under a cost-sharing arrangement. Under the terms of the Collaboration Agreement, the Company, in part through its participation in joint committees with Biogen, will participate in overseeing the development and commercialization of Ampyra and other licensed products in markets outside the United States pursuant to that agreement. Acorda will continue to develop and commercialize Ampyra independently in the United States.

As of June 30, 2009, the Company recorded deferred revenue of $110.0 million for the upfront payment from Biogen under the Collaboration Agreement. Also, as a result of such payment to Acorda, a payment of $7.7 million was made to Alkermes and recorded as a deferred expense.

The Company considered the following deliverables with respect to the revenue recognition of the $110.0 million upfront payment: (1) the license to use the Company's technology, (2) the Collaboration Agreement to develop and commercialize licensed product in all countries outside the U.S., and (3) the Supply Agreement. Due to the inherent uncertainty in obtaining regulatory approval, the applicability of the Supply Agreement is outside the control of the Company and Biogen. Accordingly, the Company has determined the Supply Agreement is a contingent deliverable at the onset of the agreement. As a result, the Company has determined the Supply Agreement does not meet the definition of a deliverable that needs to be accounted for at the inception of the arrangement. The Company has also determined that there is no significant and incremental discount related to the supply agreement since Biogen will pay the same amount for inventory that the Company would pay and the Company effectively acts as a middle man in the arrangement for which it adds no significant value due to various factors such as the Company does not have any manufacturing capabilities or other know how with respect to the manufacturing process.

The Company has determined that the identified non-contingent deliverables (deliverables 1 and 2 immediately preceding) would have no value on a standalone basis if they were sold separately by a vendor and the customer could not resell the delivered items on a standalone basis, nor does the Company have objective and reliable evidence of fair value for the deliverables. Accordingly, the non-contingent deliverables are treated as one unit of accounting. As a result, the Company will recognize the non-refundable upfront payment from Biogen as revenue and the associated payment to Alkermes as expense ratably over the estimated term of regulatory exclusivity for the licensed products under the Collaboration Agreement as the Company had determined this was the most probable expected benefit period. The Company recognized $2.3 million in license revenue, a portion of the $110.0 million received from Biogen, and $159,000 in cost of license revenue, a portion of the $7.7 million paid to Alkermes, during the three-month periods ended March 31, 2015 and 2014. The Company currently estimates the recognition period to be approximately 12 years from the date of the Collaboration Agreement.

On January 21, 2011 Biogen announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) decided against approval of Fampyra to improve walking ability in adult patients with multiple sclerosis. Biogen, working closely with the Company, filed a formal appeal of the decision. In May 2011, the CHMP recommended conditional marketing authorization, and in July 2011 Biogen received conditional approval from the European Commission for, Fampyra (prolonged-release fampridine tablets) for the improvement of walking in adult patients with MS with walking disability (Expanded Disability Status Scale of 4-7).

As part of its ex-U.S. license agreement, Biogen owes Acorda royalties based on ex-U.S. net sales, and milestones based on ex-U.S. regulatory approval and new indications. These milestones included a $25.0 million payment for approval of the product in the European Union which was recorded and paid in the three month period ended September 30, 2011. Based on Acorda's worldwide license and supply agreement with Alkermes, Alkermes received 7% of this milestone payment from Acorda during the same period. For revenue recognition purposes, the Company has determined this milestone to be substantive in accordance with applicable accounting guidance related to milestone revenue. Substantive uncertainty existed at the inception of the arrangement as to whether the milestone would be achieved because of the numerous variables, such as the high rate of failure inherent in the research and development of new products and the uncertainty involved with obtaining regulatory approval. Biogen leveraged Acorda's U.S. Ampyra study results that contributed to the regulatory approval process. Therefore, the milestone was achieved based in part on Acorda's past performance. The milestone was also reasonable relative to all deliverable and payment terms of the collaboration arrangement. Therefore, the payment was recognized in its entirety as revenue and the cost of the milestone revenue was recognized in its entirety as an expense during the three-month period ended September 30, 2011. The Company recognized $2.3 million and $2.4 million in royalty revenue for the three-month periods ended March 31, 2015 and 2014, respectively, related to ex-U.S. sales of Fampyra by Biogen.

Actavis/Watson

The Company has an agreement with Watson Pharma, Inc., a subsidiary of Actavis, Inc. (formerly Watson Pharmaceuticals, Inc.), to market tizanidine hydrochloride capsules, an authorized generic version of Zanaflex Capsules which was launched in February 2012. In accordance with the agreement, the Company receives a royalty based on Watson's gross margin, as defined by the agreement, of the authorized generic product. During the three-month periods ended March 31, 2015 and 2014, the Company recognized royalty revenue of $1.8 million and $1.4 million, respectively, related to the gross margin of the Zanaflex Capsule authorized generic. During the three-month periods ended March 31, 2015 and 2014, the Company also recognized revenue and a corresponding cost of sales of $179,000 and $830,000, respectively, related to the purchase and sale of the related Zanaflex Capsule authorized generic product to Actavis, which is recorded in net product revenues and cost of sales.

Neuronex

In December 2012, the Company acquired Neuronex, Inc., a privately-held development stage pharmaceutical company (Neuronex) developing Plumiaz (our trade name for Diazepam Nasal Spray). Plumiaz is a proprietary nasal spray formulation of diazepam that we are developing under Section 505(b)(2) of the Food, Drug and Cosmetic Act as an acute treatment for selected, refractory patients with epilepsy, on stable regimens of antiepileptic drugs, or AEDs, who experience intermittent bouts of increased seizure activity also known as seizure clusters or acute repetitive seizures, or ARS.

Under the terms of the agreement, the Company made an upfront payment of $2.0 million in February 2012. The Company also paid $1.5 million during the twelve month period ended December 31, 2012 pursuant to a commitment under the agreement to fund research to prepare for the Plumiaz pre-NDA meeting with the FDA. In December 2012, the Company completed the acquisition by paying $6.8 million to former Neuronex shareholders less a $300,000 holdback provision. After adjustment for Neuronex's working capital upon closing of the acquisition, approximately $120,000 of the holdback amount was remaining as of December 31, 2013. This balance was paid to the former equity holders of Neuronex pursuant to the merger agreement in February 2014.

The former equity holders of Neuronex are entitled to receive from Acorda up to an additional $18 million in contingent earnout payments upon the achievement of specified regulatory and manufacturing-related milestones with respect to Diazepam Nasal Spray products, and up to $105 million upon the achievement of specified sales milestones with respect to Diazepam Nasal Spray products. The former equity holders of Neuronex will also be entitled to receive tiered royalty-like earnout payments, ranging from the upper single digits to lower double digits, on worldwide net sales of Diazepam Nasal Spray products. These payments are payable on a country-by-country basis until the earlier to occur of ten years after the first commercial sale of a product in such country and the entry of generic competition in such country as defined in the Agreement.

The patent and other intellectual property and other rights relating to Diazepam Nasal Spray products are licensed from SK Biopharmaceuticals Co., Ltd. (SK). Pursuant to the SK license, which granted worldwide rights to Neuronex, except certain specified Asian countries, the Company's subsidiary Neuronex is obligated to pay SK up to $8 million upon the achievement of specified development milestones with respect to the Diazepam Nasal Spray product (including a $1 million payment that was triggered during the three-month period ending September 30, 2013 upon the FDA's acceptance for review of the first NDA for Plumiaz and paid during the three-month period ending December 31, 2013), and up to $3 million upon the achievement of specified sales milestones with respect to the Diazepam Nasal Spray product. Also, Neuronex is obligated to pay SK a tiered, mid-single digit royalty on net sales of Diazepam Nasal Spray products.

The Company evaluated the transaction based upon the guidance of ASC 805, Business Combinations, and concluded that it only acquired inputs and did not acquire any processes. The Company needed to develop its own processes in order to produce an output. Therefore the Company accounted for the transaction as an asset acquisition and accordingly the $2.0 million upfront payment, $1.5 million in research funding and $6.8 million of closing consideration net of tangible net assets acquired of $3.7 million which were primarily the taxable amount of net operating loss carryforwards, were expensed as research and development expense during the twelve-month period ended December 31, 2012.

(10) Commitments and Contingencies

A summary of the Company's commitments and contingencies was included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The Company's long-term contractual obligations include commitments and estimated purchase obligations entered into in the normal course of business.

In March 2015, Civitas exercised its right to extend the term of a sublease for five additional years, until December 31, 2020, and Civitas retains the right to further extend the sublease beyond that date for another five year period. The base rent is currently $722,000 per year. For each extension period, the economic terms of the sublease will be determined by a process set forth in the sublease, and the Company will be required to provide a letter of credit in an amount equal to the full five-year lease obligation for each lease extension period and additional security. Alkermes leases the building pursuant to an overlease with H&N Associates, LLC, and has extension rights pursuant to the overlease that correspond to Civitas' extension rights under the sublease. Alkermes has exercised a five-year extension option under the overlease that corresponds with Civitas' exercise of its five year extension option under the sublease. Pursuant to the sublease, Civitas has agreed to comply with all of Alkermes's obligations under the overlease.

The Company accrues for amounts related to legal matters if it is probable that a liability has been incurred and the amount is reasonably estimable. While losses, if any, are possible, the Company is not able to estimate any ranges of losses as of March 31, 2015. Litigation expenses are expensed as incurred.

Item 2. 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 unaudited consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.

Background

We are a biopharmaceutical company dedicated to the identification, development and commercialization of novel therapies that restore neurological function and improve the lives of people with neurological disorders. We market three FDA-approved therapies, including Ampyra (dalfampridine) Extended Release Tablets, 10 mg, a treatment to improve walking in patients with multiple sclerosis, or MS, as demonstrated by an increase in walking speed. We have one of the leading pipelines in the industry of novel neurological therapies. We are currently developing a number of clinical and preclinical stage therapies. This pipeline addresses a range of disorders, including chronic post-stroke walking deficits (PSWD), Parkinson's disease, epilepsy, heart failure, MS, and spinal cord injury.

Ampyra

General

Ampyra was approved by the FDA in January 2010 for the improvement of walking in people with MS. To our knowledge, Ampyra is the first and only drug approved for this indication. Efficacy was shown in people with all four major types of MS (relapsing remitting, secondary progressive, progressive relapsing and primary progressive). Ampyra was made commercially available in the United States in March 2010. Net revenue for Ampyra was $92.4 million for the three months ended March 31, 2015 and $72.5 million for the three months ended March 31, 2014.

Since the March 2010 launch of Ampyra, more than 100,000 people with MS in the U.S. have tried Ampyra. We believe that Ampyra is increasingly considered by many physicians a standard of care to improve walking in people with MS. As of December 2014, approximately 70% of all people with MS who were prescribed Ampyra received a first refill, and approximately 40% of all people with MS who were prescribed Ampyra have been dispensed at least six months of the medicine through refills, consistent with previously reported trends. These refill rates exclude patients who started Ampyra through our First Step trial program. Our First Step program provides eligible patients with two months of Ampyra at no cost. More than 65% of new Ampyra patients currently enroll in First Step. The program is in its fourth year, and data show that First step participants have higher compliance and persistency rates over time compared to non-First Step patients. Approximately 50% of patients who initiate Ampyra therapy with the First Step free trial program convert to paid prescriptions.

Ampyra is marketed in the United States through our own specialty sales force and commercial infrastructure. We currently have approximately 90 sales representatives in the field calling on a priority target list of approximately 7,000 physicians. We also have established teams of Medical Science Liaisons, Regional Reimbursement Directors, Managed Markets Account Directors who provide information and assistance to payers and physicians on Ampyra, National Trade Account Managers who work with wholesalers and our limited network of specialty pharmacies, and Market Development Managers who work collaboratively with field teams and corporate personnel to assist in the execution of the Company's strategic initiatives.

Ampyra is distributed in the United States exclusively through a limited network of specialty pharmacy providers that deliver the medication to patients by mail; Kaiser Permanente, which distributes Ampyra to patients through a closed network of on-site pharmacies; and ASD Specialty Healthcare, Inc. (an AmerisourceBergen affiliate), which distributes Ampyra to the U.S. Bureau of Prisons, the U.S. Department of Defense, the U.S. Department of Veterans Affairs, or VA, and other federal agencies. All of these customers are contractually obligated to hold no more than an agreed number of days of inventory, ranging from between 10 to 30 days.

We have contracted with a third party organization with extensive experience in coordinating patient benefits to run Ampyra Patient Support Services, or APSS, a dedicated resource that coordinates the prescription process among healthcare providers, people with MS, and insurance carriers. Processing of most incoming requests for prescriptions by APSS begins within 24 hours of receipt. Patients will experience a range of times to receive their first shipment based on the processing time for insurance requirements. As with any prescription product, patients who are members of benefit plans that have restrictive prior authorizations may experience delays in receiving their prescription.

Two of the largest national health plans in the U.S. – United Healthcare and Cigna – have listed Ampyra in the lowest competitive reimbursement tier, which means that it is listed in either the lowest branded copay tier or the lowest branded specialty tier (if more than one specialty tier exists) of their commercial preferred drug list or formulary. Approximately 75% of insured individuals in the U.S. continue to have no or limited prior authorizations, or PA's, for Ampyra. We define limited PAs as those that require only an MS diagnosis, documentation of no contraindications, and/or simple documentation that the patient has a walking impairment; such documentation may include a Timed 25-Foot Walk (T25W) test. The access figure is calculated based on the number of pharmacy lives reported by health plans.

License and Collaboration Agreement with Biogen

Ampyra is marketed as Fampyra outside the U.S. by Biogen International GmbH (formerly Biogen Idec International GmbH), or Biogen, under a license and collaboration agreement that we entered into in June 2009. Fampyra has been approved in a number of countries across Europe, Asia and the Americas. Biogen anticipates making Fampyra commercially available in additional markets in 2015. Under our agreement with Biogen, we are entitled to receive double-digit tiered royalties on sales of Fampyra and we are also entitled to receive additional payments based on achievement of certain regulatory and sales milestones. We received a $25 million milestone payment from Biogen in 2011, which was triggered by Biogen's receipt of conditional approval from the European Commission for Fampyra. The next expected milestone payment would be $15 million, due when ex-U.S. net sales exceed $100 million over four consecutive quarters.

Ampyra Patent Update

We have five issued patents listed in the Orange Book for Ampyra, one of which issued in 2014, as follows:

- The first is U.S. Patent No. 8,007,826, with claims relating to methods to improve walking in patients with MS by administering 10 mg of sustained release 4-aminopyridine (dalfampridine) twice daily. Based on the final patent term adjustment calculation of the United States Patent and Trademark Office, or USPTO, this patent will extend into 2027.

- The second is U.S. Patent No. 5,540,938, the claims of which relate to methods for treating a neurological disease, such as MS, and cover the use of a sustained release dalfampridine formulation, such as AMPYRA (dalfampridine) Extended Release Tablets, 10 mg for improving walking in people with MS. In April 2013, this patent received a five year patent term extension under the patent restoration provisions of the Hatch Waxman Act. With a five year patent term extension, this patent will expire in 2018. We have an exclusive license to this patent from Alkermes (originally with Elan, but transferred to Alkermes as part of its acquisition of Elan's Drug Technologies business).

    - The third, which issued in January 2013, is U.S. Patent No. 8,354,437, which includes claims relating to methods to improve walking, increase walking speed, and treat walking disability in patients with MS by administering 10 mg of sustained release 4-aminopyridine (dalfampridine) twice daily. This patent is set to expire in 2026.

- The fourth, which issued in May 2013, is U.S. Patent No. 8,440,703, which includes claims directed to methods of improving lower extremity function and walking and increasing walking speed in patients with MS by administering less than 15 mg of sustained release 4-aminopyridine (dalfampridine) twice daily. This patent is set to expire in 2025.

- The fifth, which issued in March of 2014, is U.S. Patent No. 8,663,685 with claims relating to methods to improve walking in patients with MS by administering 10 mg of sustained release 4-aminopyridine (dalfampridine) twice daily. Absent patent term adjustment, the patent is set to expire in 2025.

Ampyra also has Orphan Drug designation, which gives it marketing exclusivity in the U.S. until January 2017.

In June and July of 2014, we received eight separate Paragraph IV Certification Notices from Accord Healthcare, Inc., Actavis FL, Inc., Alkem Laboratories Ltd., Apotex, Inc., Aurobindo Pharma Ltd., Mylan Pharmaceuticals, Inc., Roxane Laboratories, Inc., and Teva Pharmaceuticals USA, Inc., advising that each of these companies had submitted an ANDA to the FDA seeking marketing approval for generic versions of Ampyra (dalfampridine) Extended Release Tablets, 10 mg. The ANDA filers have challenged the validity of our Orange Book-listed patents for Ampyra, and they have also asserted that generic versions of their products do not infringe certain claims of these patents. In response to these filings, we filed lawsuits against all of these companies alleging multiple counts of patent infringement. This litigation is further described

19

above in Part II, Item 1 of this report. We filed these lawsuits within 45 days from the date of receipt of each of the Paragraph IV Certification Notices. As a result, a 30 month statutory stay of approval period applies to each of the ANDAs under the Hatch-Waxman Act. The 30 month stay starts from January 22, 2015, which is the end of the new chemical entity (NCE) exclusivity period for Ampyra. This restricts the FDA from approving the ANDAs until July 2017 at the earliest, unless a Federal district court issues a decision adverse to all of our asserted Orange Book-listed patents prior to that date.

On May 6, 2015, we received a Paragraph IV Certification Notice from Sun Pharmaceutical Industries Limited, or Sun Pharmaceuticals, advising that it had submitted an ANDA to the FDA seeking marketing approval for a generic version of Ampyra (dalfampridine) Extended Release Tablets, 10 mg. Sun Pharmaceuticals has challenged the validity of four of our five Orange Book-listed patents for Ampyra, and did not file against our U.S. Patent No. 5,540,938, and they have also asserted that generic versions of their products may not infringe certain claims of these patents. We have 45 days from the date of receipt of this Paragraph IV Certification Notice to file suit in U.S. District Court, which will institute a 30 month statutory stay of approval period to the Sun Pharmaceuticals ANDA under the Hatch-Waxman Act. Since the Sun Pharmaceuticals ANDA was filed after January 22, 2015, which is the end of the new chemical entity (NCE) exclusivity period for Ampyra, the 30 month statutory stay of approval will start from the receipt of the Paragraph IV Certification Notice. This restricts the FDA from approving the ANDA until November 2017 at the earliest, unless a Federal district court issues a decision adverse to all of our asserted Orange Book-listed patents prior to that date. We are currently reviewing the Paragraph IV Certification Notice.

On February 10 and 27, 2015, a hedge fund (acting with affiliated entities and individuals and proceeding under the name of the Coalition for Affordable Drugs) filed two separate inter partes review (IPR) petitions with the U.S. Patent and Trademark Office, challenging U.S. Patent Nos. 8,663,685, and 8,007,826, which are two of the five Ampyra Orange Book-listed patents. We will oppose the requests to institute these two IPRs, and if they are allowed to proceed, we will oppose the full proceedings and defend our patents. The 30-month statutory stay period based on patent infringement suits filed by Acorda against ANDA filers is not impacted by these filings, and remains in effect.

In 2011, the European Patent Office, or EPO, granted EP 1732548, the counterpart European patent to U.S. Patent No. 8,354,437 with claims relating to, among other things, use of a sustained release aminopyridine composition, such as dalfampridine, to increase walking speed. In March 2012, Synthon B.V. and neuraxpharm Arzneimittel GmBH filed oppositions with the EPO challenging the EP 1732548 patent. We defended the patent, and in December 2013, we announced that the EPO Opposition Division upheld amended claims in this patent covering a sustained release formulation of dalfampridine for increasing walking in patients with MS through twice daily dosing at 10 mg. Both Synthon B.V. and neuraxpharm Arzneimittel GmBH have appealed the decision. In December 2013, Synthon B.V., neuraxpharm Arzneimittel GmBH and Actavis Group PTC ehf filed oppositions with the EPO challenging our EP 2377536 patent, which is a divisional of the EP 1732548 patent. Both European patents are set to expire in 2025, absent any additional exclusivity granted based on regulatory review timelines.

We will vigorously defend our intellectual property rights.

Zanaflex

Zanaflex Capsules and Zanaflex tablets are FDA-approved as short-acting drugs for the management of spasticity, a symptom of many central nervous system disorders, including MS and spinal cord injury. These products contain tizanidine hydrochloride, one of the two leading drugs used to treat spasticity. We launched Zanaflex Capsules in April 2005 as part of our strategy to build a commercial platform for the potential market launch of Ampyra. Combined net revenue of Zanaflex Capsules and Zanaflex tablets was $691,000 for the three months ended March 31, 2015 and $900,000 for the three months ended March 31, 2014. In 2012, Apotex commercially launched a generic version of tizanidine hydrochloride capsules, and we also launched our own authorized generic version, which is being marketed by Watson Pharma (a subsidiary of Actavis). In March 2013, Mylan Pharmaceuticals commercially launched their own generic version of Zanaflex Capsules. The commercial launch of generic tizanidine hydrochloride capsules has caused a significant decline in net revenue from the sale of Zanaflex Capsules, and the launch of these generic versions and the potential launch of other generic versions is expected to cause the Company’s net revenue from Zanaflex Capsules to decline further in 2015 and beyond.

Qutenza

Qutenza is a dermal patch containing 8% prescription strength capsaicin the effects of which can last up to three months and is approved by the FDA for the management of neuropathic pain associated with post-herpetic neuralgia, also known as post-shingles pain. We acquired commercialization rights to Qutenza in July 2013 from NeurogesX, Inc. These rights include the United States, Canada, Latin America and certain other territories. Qutenza was approved by the FDA in

2010 and launched in April 2010 but NeurogesX discontinued active promotion of the product in March 2012. In January 2014, we re-launched Qutenza in the United States using our existing commercial organization, including our specialty neurology sales force as well as our medical and safety reporting infrastructure. Net revenue for Qutenza was $222,000 for the three months ended March 31, 2015 and $209,000 for the three months ended March 31, 2014.

Astellas Pharma Europe Ltd. has exclusive commercialization rights for Qutenza in the European Economic Area (EEA) including the 28 countries of the European Union, Iceland, Norway, and Liechtenstein as well as Switzerland, certain countries in Eastern Europe, the Middle East and Africa.

Research & Development Programs

We have one of the leading pipelines in the industry of novel neurological therapies. We are currently developing a number of clinical and preclinical stage therapies. This pipeline addresses a range of disorders, including chronic post-stroke walking deficits (PSWD), Parkinson’s disease, epilepsy, heart failure, MS, and spinal cord injury. Our pipeline includes the programs described below.

CVT-301 and ARCUS Technology

On October 22, 2014, we completed the acquisition of Civitas Therapeutics, Inc., a Delaware corporation. As a result of the acquisition, we acquired global rights to CVT-301, a Phase 3 treatment candidate for OFF episodes of Parkinson’s disease. Our acquisition of Civitas also included rights to Civitas’s proprietary ARCUS pulmonary delivery technology, which we believe has potential applications in multiple disease areas, and a subleased manufacturing facility in Chelsea, Massachusetts with commercial-scale capabilities. The approximately 90,000 square foot facility also includes office and laboratory space.

CVT-301 is an inhaled formulation of levodopa, or L-dopa, for the treatment of OFF episodes in Parkinson’s disease. Parkinson’s disease is a progressive neurodegenerative disorder resulting from the gradual loss of certain neurons in the brain responsible for producing dopamine. The disease is characterized by symptoms such as impaired ability to move, muscle stiffness and tremor. The standard of care is oral L-dopa, but there are significant challenges in creating a dosing regimen that consistently maintains therapeutic effects as Parkinson’s disease progresses. The unpredictable re-emergence of symptoms is referred to as an OFF episode, and current strategies for treating these OFF episodes are widely regarded as inadequate.

CVT-301 is based on the proprietary ARCUS technology platform that we acquired with Civitas. The ARCUS technology is a dry-powder pulmonary delivery system that we believe has potential applications in multiple disease areas. This platform allows delivery of significantly larger doses of medication than are possible with conventional dry powder formulations. This in turn provides the potential for pulmonary delivery of a much wider variety of pharmaceutical agents.

In December 2014, we announced that the first patient has been enrolled in a Phase 3 study of CVT-301 for the treatment of OFF episodes in Parkinson’s disease. We expect results from the efficacy trial in 2016, and plan to file a new drug application, or NDA, in the U.S. by the end of 2016. We expect that the NDA will be filed under section 505(b)(2) of the Food Drug and Cosmetic Act, referencing data from the branded L-dopa product Sinemet®. Based on Civitas’s interactions with the FDA, we believe a single Phase 3 efficacy study will be needed for filing an NDA. A separate long term safety study will also be required. We are projecting that, if approved, annual peak sales of CVT-301 in the U.S. alone could exceed $500 million.

In addition to CVT-301, we are exploring opportunities for other proprietary products in which inhaled delivery using our ARCUS technology can provide a significant therapeutic benefit to patients. For example, we are currently developing CVT-427, an inhaled triptan intended to provide relief from acute migraine episodes by taking advantage of the ARCUS delivery system. Triptans are the class of drug most commonly prescribed to treat acute migraine. Oral triptans, which account for approximately 98% of all triptan doses, can be associated with slow onset of action and gastrointestinal challenges. The slow onset of action, usually 30 minutes or longer, can result in poor response rates. Patients cite the need for rapid relief from migraine symptoms as their most desired medication attribute. Additionally, individuals with migraine may suffer from nausea and delayed gastric emptying which further impact the consistency and efficacy of the oral route of administration. CVT-427 is currently in pre-clinical development and we are preparing to file an IND and initiate the first Phase 1 clinical trial for this program.

Ampyra/Dalfampridine Development Programs

We believe there may be potential for dalfampridine to be applied to neurological conditions in addition to MS. In December 2014, we announced that the first patient has been enrolled in a Phase 3 clinical trial evaluating the use of dalfampridine administered twice daily (BID) to improve walking in people who are suffering from chronic post-stroke walking deficits (PSWD) after experiencing an ischemic stroke. As part of the trial design, we are planning to conduct an interim analysis of the trial data, and depending on the outcome of that analysis we may initiate a second pivotal trial prior to the conclusion of the first Phase 3 trial. We have been exploring a once-daily (QD) formulation of dalfampridine for use in the chronic post-stroke clinical program. Based on the results of an in-vitro alcohol dose dumping study and a subsequent fed-fasted study, we determined that the initial QD formulation that we had been developing with an external partner was not practical for further testing. We are working with different external partners to develop a new QD formulation that could be included in future post-stroke studies.

Plumiaz

We are developing Plumiaz, a proprietary nasal spray formulation of diazepam, for the treatment of people with epilepsy who experience seizure clusters, also known as acute repetitive seizures. In 2013, we submitted a New Drug Application (NDA) filing for Plumiaz to the FDA. In May 2014, the FDA issued a Complete Response Letter, or CRL, for the Plumiaz NDA. We have engaged with the FDA regarding Plumiaz and expect to provide an update on this program in the second quarter of 2015.

We have obtained orphan drug designation, which would confer seven years of market exclusivity from the date of approval for diazepam containing drug products for the same indication. We licensed two patent families relating to the clinical formulation for Diazepam Nasal Spray, including a granted U.S. patent that is set to expire in 2029. We anticipate that our current infrastructure can support sales and marketing of this product if it receives FDA approval. We believe this product has the potential to generate peak annual sales significantly higher than $100 million.

Cimaglermin alfa (also known as GGF2)/Neuregulins

Cimaglermin alfa, which we previously referred to as GGF2, is our lead product candidate for our neuregulin program. We have completed a cimaglermin Phase 1 clinical trial in heart failure patients. This was a dose-escalating trial designed to test the maximum tolerated single dose, with follow-up assessments at one, three, and six months. Data from this trial showed a dose-related improvement in ejection fraction in addition to safety findings. A dose-limiting toxicity was also identified in the highest planned dose cohort, specifically acute liver injury meeting Hy's Law for drug induced hepatotoxicity. In March 2015, we presented new analyses of data from this trial at the American College of Cardiology (ACC) 64th Annual Scientific Session and Expo. These analyses found that cimaglermin produced a dose-dependent benefit at multiple time points for up to three months following a single infusion.

In October 2013, we announced that the first patient had been enrolled in a second clinical trial of cimaglermin. This Phase 1b single-infusion trial in people with heart failure is assessing tolerability of three dose levels of cimaglermin, which were tested in the first trial, and also includes assessment of drug-drug interactions and several exploratory measures of efficacy. We voluntarily paused enrollment in this trial in December 2013 pending review of additional non-clinical data with the FDA. In April 2014, we announced that we had completed this review and recruitment was thereafter resumed. We expect to complete this trial in the second half of 2015. If we are able to establish a proof of concept for treatment of heart failure through human clinical studies, we may decide to develop the product independently or to enter into a partnership, most likely with a cardiovascular-focused company.

Remyelinating Antibodies

rHIgM22 is the lead antibody in our remyelinating antibody program, and we are developing it as a potential therapeutic for MS. We believe a therapy that could repair myelin sheaths has the potential to restore neurological function to those affected by demyelinating conditions. In April 2013, we initiated a Phase 1 clinical trial of rHIgM22 to assess the safety and tolerability of rHIgM22 in patients with MS. The study also included several exploratory clinical, imaging and biomarker measures. We announced top-line safety and tolerability results in February 2015. The trial, which followed participants for up to six months after receiving a single dose of rHIgM22, found no dose-limiting toxicities at any of the five dose levels studied. In April 2015, we presented additional safety data from this trial at the 67th American Academy of Neurology Annual Meeting. The additional data showed that rHIgM22 was well-tolerated in each of the five doses, supporting additional clinical development. In addition, testing detected rHIgM22 in cerebrospinal fluid (CSF), indicating the drug's access to the central nervous system. Additional data from this trial will be presented at future medical meetings.

Based on these data, we intend to advance clinical development of rHIgM22 for MS. We expect to begin a second Phase 1 trial in relapsing MS patients in the second quarter of 2015, and we expect trial results in 2016.

Chondroitinase Program

We are continuing research on the potential use of chondroitinases for the treatment of injuries to the brain and spinal cord, as well as other neurotraumatic indications. The chondroitinase program is in the research and translational development phase and has not yet entered formal preclinical development.

NP-1998

NP-1998 is a Phase 3 ready, 20% prescription strength capsaicin topical solution that we have been assessing for the treatment of neuropathic pain. We acquired rights to NP-1998 from NeurogesX, Inc. in 2013 in connection with our purchase of Qutenza, an FDA-approved dermal patch containing 8% prescription strength capsaicin. We acquired development and commercialization rights in the United States, Canada, Latin America and certain other territories. Astellas Pharma Europe Ltd. has an option to develop NP-1998 in the European Economic Area (EEA) including the 28 countries of the European Union, Iceland, Norway, and Liechtenstein as well as Switzerland, certain countries in Eastern Europe, the Middle East and Africa. We believe this liquid formulation of the capsaicin-based therapy has key advantages over the Qutenza patch, and we believe NP-1998 has the potential to treat multiple neuropathies. However, we have evaluated and reprioritized our research and development pipeline based on our recent acquisition of Civitas, and as a result we have no current plans to invest in further development of NP-1998 for neuropathic pain.

Corporate Facilities Update

We currently lease approximately 138,000 square feet of office and laboratory space in Ardsley, NY. Our lease for this facility includes options to lease up to approximately 120,000 additional square feet of space in additional buildings at the same location. In May 2014, we notified the landlord that we were exercising our option to expand into an additional 25,405 square feet of office space. We occupied the additional space in the first quarter of 2015.

Our 2014 acquisition of Civitas Therapeutics, Inc. included a subleased manufacturing facility in Chelsea, Massachusetts with commercial-scale capabilities. The approximately 90,000 square foot facility also includes office and laboratory space. Civitas subleases the Chelsea, Massachusetts facility from Alkermes, Inc. The sublease is an operating lease that was scheduled to expire on December 31, 2015. In March 2015, Civitas exercised its right to extend the term of the sublease for five additional years, until December 31, 2020, and Civitas retains the right to further extend the sublease beyond that date for another five year period. The base rent is currently $722,000 per year. For each extension period, the economic terms of the sublease will be determined by a process set forth in the sublease, and we will be required to provide a letter of credit in an amount equal to the full five-year lease obligation for each lease extension period and additional security. Alkermes leases the building pursuant to an overlease with H&N Associates, LLC, and has extension rights pursuant to the overlease that correspond to Civitas' extension rights under the sublease. Alkermes has exercised a five-year extension option under the overlease that corresponds with Civitas' exercise of its five year extension option under the sublease. Pursuant to the sublease, Civitas has agreed to comply with all of Alkermes's obligations under the overlease.

Outlook for 2015

Financial Guidance for 2015

We are providing the following guidance with respect to our 2015 financial performance:

- We expect 2015 net revenue from the sale of Ampyra to range from $405 million to $420 million.
- We expect Zanaflex (tizanidine hydrochloride) and ex-U.S. Fampyra (prolonged-release fampridine tablets) 2015 revenue to be approximately $25 million, which includes net sales of branded Zanaflex products and royalties from ex-U.S. Fampyra and authorized generic tizanidine hydrochloride capsule sales.
- Research and development (R&D) expenses in 2015 are expected to range from $150 million to $160 million, excluding share-based compensation charges and expenditures related to the potential acquisition of new products or other business development activities. The increase in research and development expenses in 2015 is primarily related to Phase 3 studies of dalfampridine and CVT-301. Additional expenses include continued development of

23

Plumiaz, clinical trials for cimaglermin alfa (previously GGF2) and rHIgM22 and CVT-427, as well ongoing preclinical studies.

- Selling, general and administrative expenses (SG&A) in 2015 are expected to range from $180 million to $190 million, excluding share-based compensation charges. We are setting a high priority on managing selling, general and administrative expenses in 2015.

We are evaluating the impact of recent events on both R&D and SG&A expenses for 2015, and will provide an update on our next earnings call if there are any changes to guidance.

The range of SG&A and R&D expenditures for 2015 are non-GAAP financial measures because they exclude share-based compensation charges and certain non-cash expenses related to the Civitas acquisition. Non-GAAP financial measures are not an alternative for financial measures prepared in accordance with GAAP. However, we believe the presentation of these non-GAAP financial measures, when viewed in conjunction with actual GAAP results, provides investors with a more meaningful understanding of our projected operating performance because they exclude non-cash charges that are substantially dependent on changes in the market price of our common stock. We believe that non-GAAP financial measures that exclude share-based compensation charges and certain non-cash expenses related to the Civitas acquisition help indicate underlying trends in our business, and are important in comparing current results with prior period results and understanding expected operating performance. Also, our management uses non-GAAP financial measures that exclude share-based compensation charges and certain non-cash expenses related to the Civitas acquisition to establish budgets and operational goals, and to manage our business and to evaluate its performance.

Development Pipeline Goals

Our planned goals and key initiatives with respect to our pipeline during 2015 and beyond are as follows:

- Continue progressing our Phase 3 efficacy and safety studies of CVT-301 for the treatment of OFF episodes in Parkinson’s disease. We expect results from the efficacy trial in 2016, and plan to file a new drug application, or NDA, in the U.S. by the end of 2016.

    - Continue progressing our Phase 3 clinical trial assessing the use of a once-daily (BID) formulation of dalfampridine as a treatment for chronic post-stroke walking deficits (PSWD) after experiencing an ischemic stroke. As part of the trial design, we are planning to conduct an interim analysis of the trial data, and depending on the outcome of that analysis we may initiate a second pivotal trial prior to the conclusion of the first Phase 3 trial. We are working with different external partners to develop a once-daily (QD) formulation that could be included in future post-stroke studies.

- We are developing Plumiaz, a proprietary nasal spray formulation of diazepam, for the treatment of people with epilepsy who experience seizure clusters, also known as acute repetitive seizures. In 2013, we submitted a New Drug Application (NDA) filing for Plumiaz to the FDA. In May 2014, the FDA issued a Complete Response Letter, or CRL, for the Plumiaz NDA. We have engaged with the FDA regarding Plumiaz and expect to provide an update on this program in the second quarter of 2015.

- Complete our second clinical trial of cimaglermin alfa (previously GGF2), a Phase 1b single-infusion trial in people with heart failure assessing the tolerability of three dose levels of cimaglermin, and also includes assessment of drug-drug interactions and several exploratory measures of efficacy. In October 2013, we announced that the first patient had been enrolled in this clinical trial. We voluntarily paused enrollment in this trial in December 2013 pending review of additional non-clinical data with the FDA. In April 2014, we announced that we had completed this review and recruitment was thereafter resumed. We expect to complete this trial in the second half of 2015.

- Our Phase 1 clinical trial of rHIgM22 found no dose-limiting toxicities at any of the five dose levels studied. In addition, testing detected rHIgM22 in cerebrospinal fluid (CSF), indicating the drug’s access to the central nervous system. Based on these data, we intend to advance clinical development of rHIgM22 for MS. We expect to begin a second Phase 1 trial in relapsing MS patients in the second quarter of 2015, and we expect trial results in 2016.

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We are preparing an IND for and to initiate the first Phase 1 clinical trial of CVT-427, an inhaled triptan intended to provide relief from acute migraine episodes.

Results of Operations

Three-Month Period Ended March 31, 2015 Compared to March 31, 2014

Net Product Revenues

Ampyra

We recognize product sales of Ampyra following receipt of product by our network of specialty pharmacy providers, Kaiser Permanente and ASD Specialty Healthcare, Inc. We recognized net revenue from the sale of Ampyra to these customers of $92.4 million as compared to $72.5 million for the three-month periods ended March 31, 2015 and 2014, respectively, an increase of $19.9 million, or 27.4%. The net revenue increase was comprised of net volume increases of $11.1 million due to greater demand we believe due to, in part, the success of certain marketing programs such as our First Step and Step Together programs and price increases net of discount and allowance adjustments of $8.8 million. Effective January 1, 2015, we increased our sale price to our customers by 10.95%.

Discounts and allowances which are included as an offset in net revenue consist of allowances for customer credits, including estimated chargebacks, rebates, discounts and returns. Discounts and allowances are recorded following shipment of Ampyra tablets to our network of specialty pharmacy providers, Kaiser Permanente and ASD Specialty Healthcare, Inc. Adjustments are recorded for estimated chargebacks, rebates, and discounts. Discounts and allowances also consist of discounts provided to Medicare beneficiaries whose prescription drug costs cause them to be subject to the Medicare Part D coverage gap (i.e., the “donut hole”). Payment of coverage gap discounts is required under the Affordable Care Act, the health care reform legislation enacted in 2010. Discounts and allowances may increase as a percentage of sales as we enter into managed care contracts in the future.

The net revenue for the three-month period ended March 31, 2015 decreased from net revenue of $109.9 million for the three-month period ended December 31, 2014. We believe that the decrease in net revenue between the fourth quarter of 2014 and the first quarter of 2015 reflects certain recurring seasonal factors relating to the commencement of a new calendar year. These factors include patients switching insurance plans or pharmacy benefit providers at year-end. Consequently, many patients must re-establish eligibility during the first few months of the calendar year. Also, when deductibles and the Medicare donut hole reset at the beginning of the calendar year, it can affect timely refills for consumers with financial constraints. In addition, as in previous years, there was some inventory build in the fourth quarter of 2014 that was destocked during the first quarter.

Zanaflex

We recognize product sales of Zanaflex Capsules and Zanaflex tablets using a deferred revenue recognition model where shipments to wholesalers are recorded as deferred revenue and only recognized as revenue when end-user prescriptions of the product are reported. We also recognize product sales on the transfer price of product sold for an authorized generic of Zanaflex Capsules. We recognized net revenue from the sale of Zanaflex Capsules and Zanaflex tablets of $691,000 for the three-month period ended March 31, 2015, as compared to $900,000 for the three-month period ended March 31, 2014. Net product revenues also include $179,000 which represents the sale of our Zanaflex Capsules authorized generic product to Actavis for the three-month period ended March 31, 2015 as compared to $830,000 for the three-month period ended March 31, 2014. Generic competition has caused a significant decline in sales of Zanaflex Capsules and is expected to cause the Company’s net revenue from Zanaflex Capsules to decline further in 2015 and beyond. The decrease in net revenues was also the result of a disproportionate increase in discounts and allowances due to the mix of customers continuing to purchase our product. These customers receive higher levels of rebates and allowances.

Discounts and allowances, which are included as an offset in net revenue, consist of allowances for customer credits, including estimated chargebacks, rebates, and discounts.

Qutenza

We recognize product sales of Qutenza following receipt of product by our specialty distributors. We recognized net revenue from the sale of Qutenza of $222,000 and $209,000 for the three-month periods ended March 31, 2015 and 2014, respectively. For the foreseeable future we do not expect that sales of this product will materially contribute to our revenues.

License Revenue

We recognized $2.3 million in license revenue for the three-month periods ended March 31, 2015 and 2014, related to the $110.0 million received from Biogen in 2009 as part of our collaboration agreement. We currently estimate the recognition period to be approximately 12 years from the date of the Collaboration Agreement.

Royalty Revenue

We recognized $2.3 million and $2.4 million in royalty revenue for the three-month periods ended March 31, 2015 and 2014, respectively, related to ex-U.S. sales of Fampyra by Biogen.

We recognized $1.8 million and $1.4 million in royalty revenue for the three-month periods ended March 31, 2015 and 2014, respectively, related to the authorized generic sale of Zanaflex Capsules.

Cost of Sales

We recorded cost of sales of $18.4 million for the three-month period ended March 31, 2015 as compared to $15.5 million for the three-month period ended March 31, 2014. Cost of sales for the three-month period ended March 31, 2015 consisted primarily of $15.9 million in inventory costs related to recognized revenues. Cost of sales for the three-month period ended March 31, 2015 also consisted of $2.1 million in royalty fees based on net product shipments, $147,000 in amortization of intangible assets, and $85,000 in period costs related to freight, stability testing, and packaging. Cost of sales also included $179,000, which represents the cost of Zanaflex Capsules authorized generic product sold for the three-month period ended March 31, 2015.

Cost of sales for the three-month period ended March 31, 2014 consisted primarily of $12.7 million in inventory costs related to recognized revenues. Cost of sales for the three-month period ended March 31, 2014 also consisted of $1.7 million in royalty fees based on net product shipments, $179,000 in amortization of intangible assets, and $88,000 in period costs related to freight, stability testing, and packaging. Cost of sales also included $830,000, which represents the cost of Zanaflex Capsules authorized generic product sold for the three-month period ended March 31, 2014.

Cost of License Revenue

We recorded cost of license revenue of $159,000 for the three-month periods ended March 31, 2015 and 2014, respectively. Cost of license revenue represents the recognition of a portion of the deferred $7.7 million paid to Alkermes in 2009 in connection with the $110.0 million received from Biogen as a result of our collaboration agreement.

Research and Development

Research and development expenses for the three-month period ended March 31, 2015 were $30.6 million as compared to $14.5 million for the three-month period ended March 31, 2014, an increase of approximately $16.1 million, or 111%. The increase was primarily due to $11.3 million in CVT-301 and CVT-427 expenses incurred in 2015 after the acquisition of Civitas in October 2014. The increase was also due to an increase in overall research and development staff, compensation and related expenses of $2.7 million to support the various research and development initiatives related to our product pipeline, as well as increases in expenses for various other research and development programs, including $1.5 million related to our life cycle management program for Ampyra, $795,000 in expenses relating to our NP-1998 program, and $333,000 related to our Chondroitinase program. The increase in expenses related to our NP-1998 program is primarily attributable to drug supply purchase commitments made earlier in 2014 prior to the program re-prioritization. The increases in research and development expenses for the three-month period ended March 31, 2015 were partially offset by a decrease of $359,000 related to the Plumiaz program.

Selling, General and Administrative

Sales and marketing expenses for the three-month period ended March 31, 2015 were $25.0 million compared to $26.6 million for the three-month period ended March 31, 2014, a decrease of approximately $1.6 million, or 6%. The decrease was attributable to a decrease of $1.8 million for pre-launch activities associated with the possible commercialization of Plumiaz and a decrease in overall marketing, selling, distribution, and market research expenses for Ampyra of $921,000. The decrease in sales and marketing expenses was partially offset by an increase in overall compensation, benefits, and other selling expenses of $1.1 million, including sales force incentive compensation.

General and administrative expenses for the three-month period ended March 31, 2015 were $23.8 million compared to $20.3 million for the three-month period ended March 31, 2014, an increase of approximately $3.5 million, or 17%. This increase was primarily the result of an increase of $4.2 million for staff and compensation expenses and other expenses related to supporting the growth of the organization, including the acquisition of Civitas in October 2014, and an increase of $836,000 in legal fees. The increases in general and administrative expenses for the three-month period ended March 31, 2015 were partially offset by a decrease of $1.1 million for work on FDA post-approval requirements for the Zanaflex franchise and $588,000 in drug safety and surveillance expenses.

Changes in Fair Value of Acquired Contingent Consideration

As a result of the original Civitas spin out of Alkermes, part of the consideration to Alkermes was a future royalty to be paid to Alkermes on Civitas products. Acorda acquired this contingent consideration as part of the Civitas acquisition. The fair value of that future royalty will be assessed quarterly. We recorded a $3.1 million expense pertaining to changes in the fair-value of our acquired contingent consideration as of March 31, 2015. The changes in the fair-value of the acquired contingent consideration were due to the re-calculation of discounted cash flows for the passage of time. There were no other changes to the valuation techniques or assumptions.

Other Income / Expense

Other expense was $3.9 million for the three-month period ended March 31, 2015 compared to other income of $80,000 for the three-month period ended March 31, 2014, an increase of $3.9 million. The increase was due to an increase in interest expense of $4.0 million, principally related to the cash and non-cash portions of interest expense for the convertible senior notes issued in June 2014 (the Notes). Interest expense related to the Notes was $3.6 million for the three-month period ended March 31, 2015, of which the non-cash portion was $2.1 million. We will report interest expense in future quarters of between $3.6 million and $4.3 million related to the Notes.

Provision for Income Taxes

For the three-month periods ended March 31, 2015 and 2014, the Company recorded a $2.0 million benefit from and $2.8 million provision for income taxes, respectively, based upon its estimated tax liability for the year. The provision for income taxes is based on federal, state and Puerto Rico income taxes. The effective income tax rates for the Company for the three-month periods ended March 31, 2015 and 2014 were 40% and 80%, respectively. As a result of the Federal research and development tax credit not being extended during the first quarter of 2015, the Company was not able to receive a benefit in the effective tax rate for this in 2015. The Company, however, was able to receive a benefit in the effective tax rate for 2015 for the Massachusetts state research and development tax credit in addition to the Federal orphan drug credit.

We continue to evaluate the realizability of the Company's deferred tax assets and consider all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance will be required to reduce the deferred tax assets to the amount that is more likely than not to be realized in future periods.

Liquidity and Capital Resources

Since our inception, we have financed our operations primarily through private placements and public offerings of our common stock and preferred stock, a convertible debt offering, payments received under our collaboration and licensing agreements, sales of Ampyra and Zanaflex Capsules, and, to a lesser extent, from loans, government grants and our financing arrangement with Paul Royalty Fund (PRF).

We were cash flow positive in 2014 and, at March 31, 2015, we had $299.7 million of cash, cash equivalents and short-term investments, compared to $307.6 million at December 31, 2014. We expect to remain cash flow positive in 2015. We believe that we have sufficient cash, cash equivalents and short-term investments on hand, in addition to cash expected to be generated from operations, to fund our operations, including our currently anticipated development pipeline activities as currently planned.

Our future capital requirements will depend on a number of factors, including the amount of revenue generated from sales of Ampyra, the continued progress of our research and development activities, the amount and timing of milestone or other payments payable under collaboration, license and acquisition agreements, the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights, and capital required or used for future acquisitions or to in-license new products and compounds including the development costs relating to those products or compounds. To the extent our capital resources are insufficient to meet future operating requirements we will need to raise additional capital, reduce planned expenditures, or incur indebtedness to fund our operations. If we require additional financing in the future, we cannot assure you that it will be available to us on favorable terms, or at all.

Financing Arrangements

Saints Capital Notes

In January 1997, Elan International Services, Ltd. (EIS) loaned us an aggregate of $7.5 million pursuant to two convertible promissory notes to partly fund our research and development activities. On December 23, 2005, Elan transferred these promissory notes to funds affiliated with Saints Capital. As of March 31, 2015, $2.2 million of these promissory notes was outstanding, which amount includes accrued interest. The fifth of seven annual payments on this note was due and paid on the five year anniversary of Ampyra approval on January 22, 2015 and will continue to be paid annually until paid in full.

Zanaflex Revenue Interests Assignment

On December 23, 2005, we entered into a revenue interest 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. In November 2006, we entered into an amendment to the revenue interest assignment agreement with PRF. Under the terms of the amendment, PRF paid us $5.0 million in November 2006. An additional $5.0 million was due to us if net revenues during the fiscal year 2006 equaled or exceeded $25.0 million. This milestone was met and the receivable was reflected in our December 31, 2006 financial statements. Under the terms of the amendment, we repaid PRF $5.0 million on December 1, 2009 and an additional $5.0 million on December 1, 2010 since the net revenues milestone was met. In November 2014, PRF sold its Zanaflex revenue interest to Valeant Pharmaceuticals International, Inc.

Under the revenue interests assignment agreement and the amendment, PRF was entitled to, and now as PRF's successor, Valeant 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 and Valeant, as PRF's successor, have received and retained payments under the agreement that are at least 2.1 times the aggregate amount PRF paid us under the agreement, Valeant will only be entitled to 1% of Zanaflex net revenues. In connection with the transaction, we recorded a liability as of March 31, 2015, referred to as the revenue interest liability, of approximately $749,000. We impute interest expense associated with this liability using the effective interest rate method and record a corresponding accrued interest liability. The effective interest rate is calculated based on the rate that would enable the debt to be repaid in full over the life of the arrangement. The interest rate on this liability may vary during the term of the agreement depending on a number of factors, including the level of Zanaflex sales. We currently estimate that the imputed interest rate associated with this liability will be approximately 5.8%. Payments made to Valeant as a result of Zanaflex sales levels will reduce the accrued interest liability and the principal amount of the revenue interest liability.

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, Valeant 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 Valeant. Except in the case of certain bankruptcy events, if Valeant exercises its right, which we

refer to as Valeant's put option, to cause us to repurchase the rights we assigned to it, Valeant may not foreclose unless we fail to pay the put/call price as required. If we experience a change of control we have the right, which we refer to as our call option, to repurchase the rights we sold under the revenue interests assignment agreement 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) all payments made by PRF/Valeant to us as of such date, less all payments received by PRF/Valeant from us as of such date, and (ii) an amount that would generate an internal rate of return to PRF/Valeant of 25% on all payments made by PRF/Valeant to us as of such date, taking into account the amount and timing of all payments received by PRF/Valeant from us as of such date. We have determined that Valeant's put option and our call option meet the criteria to be considered an embedded derivative and should be accounted for as such. As of March 31, 2015, we have no liability recorded related to the put/call option to reflect its current estimated fair value. This liability is revalued on an as needed basis to reflect any changes in the fair value and any gain or loss resulting from the revaluation is recorded in earnings.

Convertible Senior Notes

In June 2014, the Company entered into an underwriting agreement (the Underwriting Agreement) with J.P. Morgan Securities LLC (the Underwriter) relating to the issuance by the Company of $345 million aggregate principal amount of 1.75% Convertible Senior Notes due 2021 (the Notes) in an underwritten public offering pursuant to the Company's Registration Statement on Form S-3 (the Registration Statement) and a related preliminary and final prospectus supplement, filed with the Securities and Exchange Commission (the Offering). The principal amount of Notes included $45 million aggregate principal amount of Notes that was purchased by the Underwriter pursuant to an option granted to the Underwriter in the Underwriting Agreement, which option was exercised in full. The net proceeds from the offering, after deducting the Underwriter's discount and the offering expenses paid by the Company, were approximately $337.5 million.

The Notes are governed by the terms of an indenture, dated as of June 23, 2014 (the Base Indenture) and the first supplemental indenture, dated as of June 23, 2014 (the Supplemental Indenture, and together with the Base Indenture, the Indenture), each between the Company and Wilmington Trust, National Association, as trustee (the Trustee). The Notes will be convertible into cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, based on an initial conversion rate, subject to adjustment, of 23.4968 shares per $1,000 principal amount of Notes (which represents an initial conversion price of approximately $42.56 per share), only in the following circumstances and to the following extent: (1) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (2) during any calendar quarter commencing after the calendar quarter ending on September 30, 2014 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (3) if the Company calls any or all of the Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; (4) upon the occurrence of specified events described in the Indenture; and (5) at any time on or after December 15, 2020 through the second scheduled trading day immediately preceding the maturity date.

See Note 15 for information regarding the reduction in the outstanding principal amount of Convertible Notes as a result of the Company's exchange of cash and shares of common stock and the related reduction in the number of call options and warrants outstanding under the convertible note hedge and warrant agreements.

The following tables provide information relating to the changes in accumulated other comprehensive loss, net of tax, for the three months ended March 27, 2016 and March 29, 2015:

	Cash Flow Hedges	Pension and Other Postretirement Benefit Plans	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive (Loss) Income
	(Dollars in thousands)			
Balance as of December 31, 2015	$(2,491)	$ (138,887)	$(229,746)	$ (371,124)
Other comprehensive income (loss) before reclassifications	(50)	182	20,476	20,608
Amounts reclassified from accumulated other comprehensive (loss) income	1,530	1,056	—	2,586
Net current-period other comprehensive income	1,480	1,238	20,476	23,194
Balance as of March 27, 2016	$(1,011)	$ (137,649)	$(209,270)	$ (347,930)

	Cash Flow Hedges	Pension and Other Postretirement Benefit Plans	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive (Loss) Income
	(Dollars in thousands)			
Balance at December 31, 2014	$—	$ (141,744)	$ (119,151)	$ (260,895)
Other comprehensive loss before reclassifications	243	810	(83,151)	(82,098)
Amounts reclassified from accumulated other comprehensive loss	(199)	1,096	—	897
Net current-period other comprehensive (loss) income	44	1,906	(83,151)	(81,201)
Balance at March 29, 2015	$44	$ (139,838)	$ (202,302)	$ (342,096)

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

The following table provides information relating to the reclassifications of losses/(gains) in accumulated other comprehensive (loss) income into expense/(income), net of tax, for the three months ended March 27, 2016 and March 29, 2015:

	Three Months Ended	
	March 27, 2016	March 29, 2015
	(Dollars in thousands)	
Losses (gains) on foreign exchange contracts:		
Cost of goods sold	$1,871	$(209)
Total before tax	1,871	(209)
Tax (benefit) expense	(341)	10
Net of tax	$1,530	$(199)
Amortization of pension and other postretirement benefit items:		
Actuarial losses (1)	$1,622	$1,606
Prior-service costs(1)	14	—
Total before tax	1,636	1,606
Tax benefit	(580)	(510)
Net of tax	$1,056	$1,096
Total reclassifications, net of tax	$2,586	$897

(1) These accumulated other comprehensive (loss) income components are included in the computation of net benefit cost of pension and other postretirement benefit plans (see Note 11 for additional information).

Note 10 — Taxes on income from continuing operations

	Three Months Ended	
	March 27, 2016	March 29, 2015
Effective income tax rate	4.9%	19.2%

The effective income tax rate for the three months ended March 27, 2016 and March 29, 2015 was 4.9% and 19.2%, respectively. The decrease in the effective income tax rate for the three months ended March 27, 2016 is primarily due to a tax benefit realized on the settlement of a foreign tax audit as well as a tax benefit associated with a reduction in the estimated deferred tax with respect to non-permanently reinvested income due to an increase in the estimated foreign tax credits available to reduce the U.S. tax on a future repatriation.

Note 11 — Pension and other postretirement benefits

The Company has a number of defined benefit pension and postretirement plans covering eligible U.S. and non-U.S. employees. The defined benefit pension plans are noncontributory. The benefits under these plans are based primarily on years of service and employees' pay near retirement. The Company's funding policy for U.S. plans is to contribute annually, at a minimum, amounts required by applicable laws and regulations. Obligations under non-U.S. plans are systematically provided for by depositing funds with trustees or by book reserves. As of March 27, 2016, no further benefits are being accrued under the Company's U.S. defined benefit pension plans and the Company's other postretirement benefit plans, other than certain postretirement benefit plans covering employees subject to a collective bargaining agreement.

The Company and certain of its subsidiaries provide medical, dental and life insurance benefits to pensioners or their survivors. The associated plans are unfunded and approved claims are paid from Company funds.

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

The following table provides summarized information regarding net benefits expense (income), measured as of March 27, 2016 and March 29, 2015:

	Pension Three Months Ended		Other Postretirement Benefits Three Months Ended	
	March 27, 2016	March 29, 2015	March 27, 2016	March 29, 2015
	(Dollars in thousands)			
Service cost	$652	$471	$ 111	$ 107
Interest cost	3,920	4,486	406	512
Expected return on plan assets	(6,198)	(6,425)	—	—
Net amortization and deferral	1,579	1,530	57	77
Net benefits expense (income)	$(47)	$62	$ 574	$ 696

The Company’s pension contributions are expected to be approximately $2.4 million during 2016, of which $1.1 million was contributed during the three months ended March 27, 2016.

Note 12 — Commitments and contingent liabilities
Operating leases: The Company uses various leased facilities and equipment in its operations.

During the first quarter 2016, the Company entered into a build-to-suit lease arrangement for its European and global operations headquarters. For accounting purposes, the Company is deemed the owner of the asset during the construction period and is required to record the estimated fair value of the incurred construction costs as construction in progress, and a current liability for those costs not funded by the Company, during the construction period. The construction of the building and tenant improvements, of which the estimated cost is $16.4 million, is expected to be completed in October 2016. The Company will occupy the entire European headquarters building once construction is completed. As of March 27, 2016, the Company recorded $5.5 million in property, plant and equipment representing the estimated fair value of the construction costs incurred to date. Based on current expectations, the Company believes it is not subject to any continuing involvement requirements that would prohibit the Company from derecognizing the asset and related liability upon commencement of the lease term.
Environmental: The Company is subject to contingencies as a result of environmental laws and regulations that in the future may require the Company to take further action to correct the effects on the environment of prior disposal practices or releases of chemical or petroleum substances by the Company or other parties. Much of this liability results from the U.S. Comprehensive Environmental Response, Compensation and Liability Act, often referred to as Superfund, the U.S. Resource Conservation and Recovery Act and similar state laws. These laws require the Company to undertake certain investigative and remedial activities at sites where the Company conducts or once conducted operations or at sites where Company-generated waste was disposed.
Remediation activities vary substantially in duration and cost from site to site. These activities, and their associated costs, depend on the mix of unique site characteristics, evolving remediation technologies, the regulatory agencies involved and their enforcement policies, as well as the presence or absence of other potentially responsible parties. At March 27, 2016 the Company has recorded $1.2 million and $6.1 million, in accrued liabilities and other liabilities, respectively, relating to these matters. Considerable uncertainty exists with respect to these liabilities and, if adverse

changes in circumstances occur, the potential liability may exceed the amount accrued as of March 27, 2016. The time frame over which the accrued amounts may be paid out, based on past history, is estimated to be 15-20 years.
Litigation: The Company is a party to various lawsuits and claims arising in the normal course of business. These lawsuits and claims include actions involving product liability, intellectual property, employment, environmental and other matters. As of March 27, 2016, the Company has recorded accrued liabilities of $2.7 million in connection with such contingencies, representing its best estimate of the cost within the range of estimated possible losses that will

20

be incurred to resolve these matters. Of the amount accrued as of March 27, 2016, $1.5 million pertains to discontinued operations.

In 2006, the Company was named as a defendant in a wrongful death product liability lawsuit filed in the Louisiana State District Court for the Parish of Calcasieu, involving a product manufactured by the Company’s former marine business. In September 2014, the case was tried before a jury, which returned a verdict in favor of the Company. The plaintiff subsequently filed a motion for a new trial, which was granted, and the case was re-tried before a jury in December 2014. On December 5, 2014, the jury returned a verdict in favor of the plaintiff, awarding $0.1 million in compensatory damages and $23.0 million in punitive damages, plus pre- and post-judgment interest on the compensatory damages and post-judgment interest on the punitive damages. The Company's post-trial motions seeking to overturn the verdict or reduce the amount of damages were denied in June 2015. The Company has appealed to the Louisiana Court of Appeal. The plaintiff has filed a cross-appeal, seeking to overturn the trial court’s denial of pre-judgment interest on the punitive damages award. As of March 27, 2016, the Company has accrued a liability representing its best estimate of probable loss associated with this matter, which is included in the Company’s accrued liabilities for litigation matters relating to discontinued operations discussed in the preceding paragraph. The Company believes that any liability arising from this matter in excess of $10.0 million will be covered by the Company’s product liability insurance.

Based on information currently available, advice of counsel, established reserves and other resources, the Company does not believe that the outcome of any outstanding litigation and claims is likely to be, individually or in the aggregate, material to its business, financial condition, results of operations or liquidity. However, in the event of unexpected further developments, it is possible that the ultimate resolution of these matters, or other similar matters, if unfavorable, may be materially adverse to the Company’s business, financial condition, results of operations or liquidity. Legal costs such as outside counsel fees and expenses are charged to selling, general and administrative expenses in the period incurred.

Tax audits and examinations: The Company and its subsidiaries are routinely subject to tax examinations by various tax authorities. As of March 27, 2016, the most significant tax examinations in process are in Austria and Canada. The Company may establish reserves with respect to its uncertain tax positions, after which it adjusts its reserves to address developments with respect to these uncertain tax positions. Accordingly, developments in tax audits and examinations, including resolution of uncertain tax positions, could result in increases or decreases to the Company’s recorded tax liabilities, which could impact the Company’s financial results.

Other: The Company has various purchase commitments for materials, supplies and items of permanent investment incident to the ordinary conduct of its business. On average, such commitments are not at prices in excess of current market prices.

Note 13 — Segment information

An operating segment is a component of the Company (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the Company’s chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and (c) for which discrete financial information is available. The Company does not evaluate its operating segments using discrete asset information.

Effective April 1, 2015, the Company reorganized certain of its businesses to better leverage the Company’s resources. As a result, the Company realigned its operating segments. Specifically, the Company's Anesthesia/Respiratory North America operating segment was divided into two operating segments, Anesthesia North America and Respiratory North America. Additionally, the businesses comprising the Company's former Specialty operating segment (which was not a reportable segment and, therefore, was included in the "All other" category in the Company's presentation of segment information) were transferred to the Anesthesia North America, Vascular North America and Respiratory

North America operating segments.

As a result of the operating segment changes described above, the Company has the following six reportable operating segments: Vascular North America, Anesthesia North America, Surgical North America, EMEA, Asia and OEM. In connection with the presentation of segment information, the Company will continue to present certain operating

21

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

segments, which, effective April 1, 2015, include, among others, the Respiratory North America operating segment, in the “All other” category. All prior comparative periods presented in this report have been restated to reflect these changes.

The Company’s reportable segments, other than the Original Equipment Manufacturer and Development Services ("OEM") segment, design, manufacture and distribute medical devices primarily used in critical care, surgical applications and cardiac care and generally serve two end markets: hospitals and healthcare providers, and home health. The products of these segments are most widely used in the acute care setting for a range of diagnostic and therapeutic procedures and in general and specialty surgical applications. The Company’s OEM segment designs, manufactures and supplies devices and instruments for other medical device manufacturers.

The following tables present the Company’s segment results for the three months ended March 27, 2016 and March 29, 2015:

	Three Months Ended	
	March 27, 2016	March 29, 2015
	(Dollars in thousands)	
Revenue		
Vascular North America	$81,588	$80,766
Anesthesia North America	45,957	45,449
Surgical North America	38,941	38,059
EMEA	122,095	129,282
Asia	49,156	48,529
OEM	33,977	34,715
All other	53,179	52,630
Consolidated net revenues	$424,893	$429,430

	Three Months Ended	
	March 27, 2016	March 29, 2015
	(Dollars in thousands)	
Operating profit		
Vascular North America	$19,656	$15,750
Anesthesia North America	12,177	9,960
Surgical North America	13,256	12,327
EMEA	21,043	26,335
Asia	13,008	8,146
OEM	5,189	8,043
All other	5,743	3,093
Total segment operating profit (1)	90,072	83,654
Unallocated expenses (2)	(22,575)	(18,046)
Income from continuing operations before interest and taxes	$67,497	$65,608

(1) Segment operating profit includes segment net revenues from external customers reduced by its standard cost of goods sold, adjusted for fixed manufacturing cost absorption variances, selling, general and administrative expenses, research and development expenses and an allocation of corporate expenses. Corporate expenses are allocated among the segments in proportion to the respective amounts of one of several items (such as sales, numbers of employees, and amount of time spent), depending on the category of expense involved.

(2) Unallocated expenses primarily include manufacturing variances, with the exception of fixed manufacturing cost absorption variances, restructuring charges and gain on sale of assets.

Note 14 — Condensed consolidating guarantor financial information

In April 2015, pursuant to an exchange offer registered under the Securities Act of 1933, Teleflex Incorporated (referred to below as “Parent Company”) exchanged $250 million of its 5.25% Senior Notes due 2024 for a like principal amount of substantially identical notes that it issued in a private placement in May 2014. The notes are guaranteed, jointly and severally, by certain of the Parent Company’s subsidiaries (each, a “Guarantor Subsidiary” and collectively, the “Guarantor Subsidiaries”). The guarantees are full and unconditional, subject to certain customary release provisions. Each Guarantor Subsidiary is directly or indirectly 100% owned by the Parent Company. The Company’s condensed consolidating statements of income and comprehensive income (loss) for the three months ended March 27, 2016 and March 29, 2015, condensed consolidating balance sheets as of March 27, 2016 and December 31, 2015 and condensed consolidating statements of cash flows for the three months ended March 27, 2016 and March 29, 2015, provide consolidated information for:

a. Parent Company, the issuer of the guaranteed obligations;
b. Guarantor Subsidiaries, on a combined basis;
c. Non-Guarantor Subsidiaries, on a combined basis; and
d. Parent Company and its subsidiaries on a consolidated basis.

The same accounting policies as described in Note 1 to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 are used by the Parent Company and each of its subsidiaries in connection with the condensed consolidating financial information, except for the use by the Parent Company and Guarantor Subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation.

Consolidating entries and eliminations in the following condensed consolidated financial statements represent adjustments to (a) eliminate intercompany transactions between or among the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries, (b) eliminate the investments in subsidiaries and (c) record consolidating entries.

The Company made revisions to the classification of certain balances related to intercompany transactions in the condensed consolidating statements of income and comprehensive loss for the three months ended March 29, 2015, as well as the condensed consolidating statement of cash flows for the three months ended March 29, 2015. These revisions, individually and in the aggregate, had no impact on the consolidated results of the Company and are not material to the condensed consolidating guarantor financial information for any of the periods subject to previously filed condensed consolidating guarantor financial information.

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

TELEFLEX INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended March 27, 2016				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Condensed Consolidated
	(Dollars in thousands)				
Net revenues	$—	$ 258,911	$ 261,348	$ (95,366)	$ 424,893
Cost of goods sold	—	155,541	132,963	(88,758)	199,746
Gross profit	—	103,370	128,385	(6,608)	225,147
Selling, general and administrative expenses	9,329	81,477	45,059	483	136,348
Research and development expenses	—	6,435	5,918	—	12,353
Restructuring charges	—	4,758	5,210	—	9,968
Gain on sale of assets	—	—	(1,019)	—	(1,019)
(Loss) income from continuing operations before interest and taxes	(9,329)	10,700	73,217	(7,091)	67,497
Interest, net	33,044	(20,318)	978	—	13,704
(Loss) income from continuing operations before taxes	(42,373)	31,018	72,239	(7,091)	53,793
(Benefit) taxes on income from continuing operations	(15,848)	11,677	7,864	(1,080)	2,613
Equity in net income of consolidated subsidiaries	77,457	57,900	168	(135,525)	—
Income from continuing operations	50,932	77,241	64,543	(141,536)	51,180
Operating loss from discontinued operations	(382)	—	—	—	(382)
(Benefit) taxes on loss from discontinued operations	(139)	—	69	—	(70)
Loss from discontinued operations	(243)	—	(69)	—	(312)
Net income	50,689	77,241	64,474	(141,536)	50,868
Less: Income from continuing operations attributable to noncontrolling interest	—	—	179	—	179
Net income attributable to common shareholders	50,689	77,241	64,295	(141,536)	50,689
Other comprehensive income attributable to common shareholders	23,194	18,573	22,412	(40,985)	23,194
Comprehensive income attributable to common shareholders	$ 73,883	$ 95,814	$ 86,707	$ (182,521)	$ 73,883

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

	Three Months Ended March 29, 2015				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Condensed Consolidated
	(Dollars in thousands)				
Net revenues	$—	$ 264,161	$ 258,901	$ (93,632)	$ 429,430
Cost of goods sold	—	158,326	137,618	(89,151)	206,793
Gross profit	—	105,835	121,283	(4,481)	222,637
Selling, general and administrative expenses	11,452	84,268	43,817	160	139,697
Research and development expenses	—	11,127	1,757	—	12,884
Restructuring charges	—	3,739	709	—	4,448
(Loss) income from continuing operations before interest and taxes	(11,452)	6,701	75,000	(4,641)	65,608
Interest, net	34,360	(18,569)	1,212	—	17,003
(Loss) income from continuing operations before taxes	(45,812)	25,270	73,788	(4,641)	48,605
(Benefit) taxes on (loss) income from continuing operations	(15,293)	10,992	14,744	(1,111)	9,332
Equity in net income of consolidated subsidiaries	69,538	59,690	97	(129,325)	—
Income from continuing operations	39,019	73,968	59,141	(132,855)	39,273
Operating (loss) income from discontinued operations	(503)	—	4	—	(499)
Taxes on loss from discontinued operations	164	—	40	—	204
Loss from discontinued operations	(667)	—	(36)	—	(703)
Net income	38,352	73,968	59,105	(132,855)	38,570
Less: Income from continuing operations attributable to noncontrolling interest	—	—	218	—	218
Net income attributable to common shareholders	38,352	73,968	58,887	(132,855)	38,352
Other comprehensive loss attributable to common shareholders	(81,201)	(106,761)	(99,728)	206,489	(81,201)
Comprehensive loss attributable to common shareholders	$ (42,849)	$ (32,793)	$ (40,841)	$ 73,634	$ (42,849)

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

TELEFLEX INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS

	March 27, 2016				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Condensed Consolidated
	(Dollars in thousands)				
ASSETS					
Current assets					
Cash and cash equivalents	$23,992	$1,005	$ 367,561	$—	$ 392,558
Accounts receivable, net	2,688	3,969	264,101	3,902	274,660
Accounts receivable from consolidated subsidiaries	4,691	2,408,849	315,430	(2,728,970)	—
Inventories, net	—	207,361	162,803	(31,258)	338,906
Prepaid expenses and other current assets	12,505	7,136	17,427	3,665	40,733
Prepaid taxes	11,045	—	20,053	—	31,098
Assets held for sale	2,901	—	4,153	—	7,054
Total current assets	57,822	2,628,320	1,151,528	(2,752,661)	1,085,009
Property, plant and equipment, net	2,817	170,273	145,093	—	318,183
Goodwill	—	705,754	597,702	—	1,303,456
Intangibles assets, net	—	752,114	436,739	—	1,188,853
Investments in affiliates	5,823,852	1,436,790	23,143	(7,283,589)	196
Deferred tax assets	85,243	—	6,731	(89,616)	2,358
Notes receivable and other amounts due from consolidated subsidiaries	1,339,835	1,688,217	—	(3,028,052)	—
Other assets	22,697	6,647	16,067	—	45,411
Total assets	$7,332,266	$7,388,115	$ 2,377,003	$(13,153,918)	$ 3,943,466
LIABILITIES AND EQUITY					
Current liabilities					
Current borrowings	$377,898	$—	$ 43,300	$—	$ 421,198
Accounts payable	3,403	32,514	37,396	—	73,313
Accounts payable to consolidated subsidiaries	2,461,194	227,846	39,930	(2,728,970)	—
Accrued expenses	15,623	20,429	32,745	—	68,797
Current portion of contingent consideration	—	7,397	—	—	7,397
Payroll and benefit-related liabilities	16,749	16,724	38,558	—	72,031
Accrued interest	6,615	—	20	—	6,635
Income taxes payable	—	—	13,452	(752)	12,700
Other current liabilities	1,968	2,623	8,013	—	12,604
Total current liabilities	2,883,450	307,533	213,414	(2,729,722)	674,675
Long-term borrowings	641,973	—	—	—	641,973
Deferred tax liabilities	—	376,062	35,597	(89,616)	322,043
Pension and other postretirement benefit liabilities	98,086	32,000	16,718	—	146,804
Noncurrent liability for uncertain tax positions	1,321	17,775	7,072	—	26,168
	1,612,032	1,229,786	186,234	(3,028,052)	—

Notes payable and other amounts due to consolidated subsidiaries					
Other liabilities	23,308	21,764	12,656	—	57,728
Total liabilities	5,260,170	1,984,920	471,691	(5,847,390)	1,869,391
Convertible notes - redeemable equity component	12,877	—	—	—	12,877
Mezzanine equity	12,877	—	—	—	12,877
Total common shareholders' equity	2,059,219	5,403,195	1,903,333	(7,306,528)	2,059,219
Noncontrolling interest	—	—	1,979	—	1,979
Total equity	2,059,219	5,403,195	1,905,312	(7,306,528)	2,061,198
Total liabilities and equity	$7,332,266	$7,388,115	$ 2,377,003	$(13,153,918)	$ 3,943,466

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

	December 31, 2015				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Condensed Consolidated
	(Dollars in thousands)				
ASSETS					
Current assets					
Cash and cash equivalents	$21,612	$—	$ 316,754	$—	$ 338,366
Accounts receivable, net	2,538	4,326	251,166	4,386	262,416
Accounts receivable from consolidated subsidiaries	5,276	2,412,079	289,697	(2,707,052)	—
Inventories, net	—	205,163	149,705	(24,593)	330,275
Prepaid expenses and other current assets	10,511	4,702	16,037	3,665	34,915
Prepaid taxes	16,686	—	14,622	(413)	30,895
Assets held for sale	2,901	—	4,071	—	6,972
Total current assets	59,524	2,626,270	1,042,052	(2,724,007)	1,003,839
Property, plant and equipment, net	2,931	174,674	138,518	—	316,123
Goodwill	—	705,753	590,099	—	1,295,852
Intangibles assets, net	—	762,084	437,891	—	1,199,975
Investments in affiliates	5,724,226	1,360,045	23,065	(7,107,184)	152
Deferred tax assets	91,432	—	8,042	(97,133)	2,341
Notes receivable and other amounts due from consolidated subsidiaries	1,358,446	1,658,092	—	(3,016,538)	—
Other assets	22,602	6,615	24,275	—	53,492
Total assets	$7,259,161	$7,293,533	$ 2,263,942	$(12,944,862)	$ 3,871,774
LIABILITIES AND EQUITY					
Current liabilities					
Current borrowings	$374,050	$—	$ 43,300	$—	$ 417,350
Accounts payable	1,945	27,527	36,833	—	66,305
Accounts payable to consolidated subsidiaries	2,478,109	201,400	27,543	(2,707,052)	—
Accrued expenses	15,399	22,281	26,337	—	64,017
Current portion of contingent consideration	—	7,291	—	—	7,291
Payroll and benefit-related liabilities	21,617	29,305	33,736	—	84,658
Accrued interest	7,455	—	25	—	7,480
Income taxes payable	—	—	8,144	(85)	8,059
Other current liabilities	1,300	2,679	4,981	—	8,960
Total current liabilities	2,899,875	290,483	180,899	(2,707,137)	664,120
Long-term borrowings	641,850	—	—	—	641,850
Deferred tax liabilities	—	376,738	36,378	(97,133)	315,983
Pension and other postretirement benefit liabilities	100,355	32,274	16,812	—	149,441
Noncurrent liability for uncertain tax positions	1,151	17,722	21,527	—	40,400
Notes payable and other amounts due to consolidated subsidiaries	1,585,727	1,253,189	177,622	(3,016,538)	—
Other liabilities	20,931	15,685	12,271	—	48,887

Total liabilities	5,249,889	1,986,091	445,509	(5,820,808)	1,860,681
Total common shareholders' equity	2,009,272	5,307,442	1,816,612	(7,124,054)	2,009,272
Noncontrolling interest	—	—	1,821	—	1,821
Total equity	2,009,272	5,307,442	1,818,433	(7,124,054)	2,011,093
Total liabilities and equity	$7,259,161	$7,293,533	$ 2,263,942	$(12,944,862)	$ 3,871,774

27

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

TELEFLEX INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Three Months Ended March 27, 2016			
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Condensed Consolidated
	(Dollars in thousands)			
Net cash (used in) provided by operating activities from continuing operations	$(18,852)	$ 25,624	$ 60,060	$ 66,832
Cash flows from investing activities of continuing operations:				
Expenditures for property, plant and equipment	(5)	(3,470)	(4,347)	(7,822)
Proceeds from sale of assets	—	—	1,251	1,251
Net cash used in investing activities from continuing operations	(5)	(3,470)	(3,096)	(6,571)
Cash flows from financing activities of continuing operations:				
Reduction in borrowings	(9)	—	—	(9)
Net proceeds from share based compensation plans and the related tax impacts	3,180	—	—	3,180
Payments for contingent consideration	—	(61)	—	(61)
Dividends paid	(14,179)	—	—	(14,179)
Intercompany transactions	32,371	(21,088)	(11,283)	—
Net cash provided by (used in) financing activities from continuing operations	21,363	(21,149)	(11,283)	(11,069)
Cash flows from discontinued operations:				
Net cash used in operating activities	(126)	—	—	(126)
Net cash used in discontinued operations	(126)	—	—	(126)
Effect of exchange rate changes on cash and cash equivalents	—	—	5,126	5,126
Net increase in cash and cash equivalents	2,380	1,005	50,807	54,192
Cash and cash equivalents at the beginning of the period	21,612	—	316,754	338,366
Cash and cash equivalents at the end of the period	$23,992	$ 1,005	$ 367,561	$ 392,558

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

	Three Months Ended March 29, 2015			
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Condensed Consolidated
	(Dollars in thousands)			
Net cash (used in) provided by operating activities from continuing operations	$(55,161)	$ 21,527	$ 75,992	$ 42,358
Cash flows from investing activities of continuing operations:				
Expenditures for property, plant and equipment	(37)	(7,738)	(6,670)	(14,445)
Payments for businesses and intangibles acquired, net of cash acquired	—	—	(7,375)	(7,375)
Net cash used in investing activities from continuing operations	(37)	(7,738)	(14,045)	(21,820)
Cash flows from financing activities of continuing operations:				
Proceeds from new borrowings	30,000	—	—	30,000
Reduction in borrowings	(52)	—	—	(52)
Net proceeds from share based compensation plans and the related tax impacts	(289)	—	—	(289)
Payments for contingent consideration		(3,989)		(3,989)
Dividends paid	(14,118)	—	—	(14,118)
Intercompany transactions	40,065	(9,800)	(30,265)	—
Net cash provided by (used in) financing activities from continuing operations	55,606	(13,789)	(30,265)	11,552
Cash flows from discontinued operations:				
Net cash used in operating activities	(302)	—	(824)	(1,126)
Net cash used in discontinued operations	(302)	—	(824)	(1,126)
Effect of exchange rate changes on cash and cash equivalents	—	—	(25,441)	(25,441)
Net increase in cash and cash equivalents	106	—	5,417	5,523
Cash and cash equivalents at the beginning of the period	27,996	—	275,240	303,236
Cash and cash equivalents at the end of the period	$28,102	$ —	$ 280,657	$ 308,759

TELEFLEX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Unaudited)

Note 15 — Subsequent event

On April 4, 2016, pursuant to separate, privately negotiated agreements between the Company and certain of the holders of the Convertible Notes (the "Holders"), the Company paid cash and common stock (the "Exchange Consideration") to the Holders in exchange for $219.2 million aggregate principal amount of the Convertible Notes (the "Exchange Transactions"). The Exchange Consideration paid to the Holders per $1,000 principal amount of Convertible Notes is equal to: (i) $1,000 in cash, (ii) a number of shares of the Company’s common stock equal to the amount of the conversion value of the Convertible Notes in excess of the $1,000 principal amount (the "Conversion Shares") calculated on the basis of the average daily volume weighted average price (the "Average Daily VWAP") per share of Company common stock over a specified period , (iii) an inducement payment in additional shares of common stock (the "Inducement Shares"), calculated based on the Average Daily VWAP and (iv) cash in an amount equal to accrued and unpaid interest to, but not including, the closing date. As a result of the Exchange Transactions, the Company paid the Holders aggregate cash consideration of $220.7 million (which includes $1.5 million in accrued but previously unpaid interest) and issued and delivered to the Holders 2.17 million shares of Company common stock (including both Conversion Shares and Inducement Shares).The Company funded the $220.7 million cash payment constituting part of the Exchange Consideration through borrowings under its revolving credit agreement. Following the Exchange Transactions, and after giving effect to the conversion notices the Company has received, but not yet settled, through March 27, 2016 with respect to $44.3 million in aggregate principal amount of the Convertible Notes, $136.2 million aggregate principal amount of the Convertible Notes were outstanding. The issuance of the shares of the Company’s common stock to the Holders pursuant to the Exchange Transactions was made pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), under Section 3(a)(9) of the Securities Act.

As of March 27, 2016, the Company reclassified $12.9 million from additional paid-in capital to convertible notes in the mezzanine equity section of the Company's condensed consolidated balance sheet. The reclassified amount represents the aggregate difference between the principal amount and the carrying value of both the Convertible Notes purchased by the Company pursuant to the Exchange Transactions and the Convertible Notes for which conversion notices have been received by the Company but have not yet been settled. In addition, as a result of the Exchange Transactions, the Company recognized a loss on extinguishment of debt of $16.3 million in April 2016.

In connection with entering into the Exchange Transactions, the Company also entered into bond hedge unwind agreements (the "Hedge Unwind Agreements") with the counterparties to the convertible note hedge transactions related to the Convertible Notes. Under the Hedge Unwind Agreements, the number of call options subject to the Convertible Note hedge transactions was reduced to reflect proportionately the reduction in the outstanding principal amount of the Convertible Notes following the Exchange Transactions. In addition, the Company entered into warrant unwind agreements (the “Warrant Unwind Agreements”) with the dealer counterparties to reduce the number of warrants initially issued to the dealer counterparties, also in connection with the initial issuance of the Convertible Notes. On a net basis, after giving effect to the Hedge Unwind Agreements and Warrant Unwind Agreements, the Company received 0.3 million shares of Company common stock from such dealer counterparties.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

All statements made in this Quarterly Report on Form 10-Q, other than statements of historical fact, are forward-looking statements. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “will,” “would,” “guidance,” “potential,” “continue,” “project,” “forecast,” “confident,” “prospects” and similar expressions typically are used to identify forward-looking statements. Forward-looking statements are based on the then-current expectations, beliefs, assumptions, estimates and forecasts about our business and the industry and markets in which we operate. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied by these forward-looking statements due to a number of factors, including changes in business relationships with and purchases by or from major customers or suppliers; delays or cancellations in shipments; demand for and market acceptance of new and existing products; our ability to integrate acquired businesses into our operations, realize planned synergies and operate such businesses profitably in accordance with expectations; our ability to effectively execute our restructuring programs; our inability to realize savings resulting from restructuring plans and programs at anticipated levels; the impact of recently passed healthcare reform legislation and changes in Medicare, Medicaid and third party coverage and reimbursements; competitive market conditions and resulting effects on revenues and pricing; increases in raw material costs that cannot be recovered in product pricing; global economic factors, including currency exchange rates, interest rates and sovereign debt issues; difficulties entering new markets; and general economic conditions. For a further discussion of the risks relating to our business, see Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. We expressly disclaim any obligation to update these forward-looking statements, except as otherwise specifically stated by us or as required by law or regulation.

Overview

Teleflex is a global provider of medical technology products that enhance clinical benefits, improve patient and provider safety and reduce total procedural costs. We primarily design, develop, manufacture and supply single-use medical devices used by hospitals and healthcare providers for common diagnostic and therapeutic procedures in critical care and surgical applications. We market and sell our products worldwide through a combination of our direct sales force and distributors. Because our products are used in numerous markets and for a variety of procedures, we are not dependent upon any one end-market or procedure. We are focused on achieving consistent, sustainable and profitable growth by increasing our market share and improving our operating efficiencies.

We evaluate our portfolio of products and businesses on an ongoing basis to ensure alignment with our overall objectives. Based on our evaluation, we may identify opportunities to expand our margins through strategic divestitures of existing businesses and product lines that do not meet our objectives. In addition, we may seek to optimize utilization of our facilities through restructuring initiatives designed to further reduce our cost base and enhance our competitive position. For a discussion of our ongoing restructuring programs, see "Restructuring charges" under “Results of Operations” below.

During 2015, we completed several acquisitions of businesses that complement the anesthesia, surgical ligation, vascular and OEM product portfolios, as well as several acquisitions of distributors of medical devices and supplies (the "2015 acquisitions"). The total fair value of consideration for the 2015 acquisitions was $96.5 million.

Change in Reportable Segments

Effective April 1, 2015, we reorganized certain of our businesses to better leverage our resources. As a result, we realigned our operating segments. Specifically, the Anesthesia/Respiratory North America operating segment was divided into two operating segments, Anesthesia North America and Respiratory North America. Additionally, the businesses comprising the former Specialty operating segment (which was not a reportable segment and, therefore, was included in the "All other" category in the presentation of segment information) were transferred to the Anesthesia North America, Vascular North America and Respiratory North America operating segments.

As a result of the operating segment changes described above, we have the following six reportable operating segments: Vascular North America, Anesthesia North America, Surgical North America, EMEA, Asia and OEM. In connection with the presentation of segment information, we have continued to present certain operating segments, which, effective April 1, 2015, include, among others, the Respiratory North America operating segment, in the "All other" category. All prior comparative periods have been restated to reflect these changes.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with 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. Actual results could differ from those estimates and assumptions.

In our Annual Report on Form 10-K for the year ended December 31, 2015, we provided disclosure regarding our critical accounting estimates, which are reflective of significant judgments and uncertainties, are important to the presentation of our financial condition and results of operations and could potentially result in materially different results under different assumptions and conditions.

Results of Operations

As used in this discussion, "new products" are products that we have sold for 36 months or less, and “existing products” are products that we have sold for more than 36 months. Discussion of results of operations items that reference the effect of one or more acquired businesses (except as noted below with respect to acquired distributors) generally reflects the impact of the acquisitions within the first 12 months following the date of the acquisition. In addition to increases and decreases in the per unit selling prices of our products to our customers, our discussion of the impact of product price increases and decreases also reflects, for the first 12 months following the acquisition of a distributor, the impact on the pricing of our products resulting from the elimination of the distributor from the sales channel. To the extent an acquired distributor had pre-acquisition sales of products other than ours, the impact of the post-acquisition sales of those products on our results of operations is included within our discussion of the impact of acquired businesses.

Certain financial information is presented on a rounded basis, which may cause minor differences

Net Revenues

	Three Months Ended	
	March 27, 2016	March 29, 2015
	(Dollars in millions)	
Net Revenues	$424.9	$429.4

Net revenues for the three months ended March 27, 2016 decreased $4.5 million, or 1.1%, compared to the prior year period. The decrease is primarily the result of unfavorable fluctuations in foreign currency exchange rates of $9.0 million, primarily in the Asia and EMEA segments, and a decrease in sales volumes of existing products of $3.9 million, primarily in the EMEA and OEM segments. The decrease was partially offset by an increase in new product sales of $4.6 million, primarily in the Surgical North America and OEM segments, price increases of $2.3 million, primarily in the Asia and Surgical North America segments, and net revenues generated by the 2015 acquisitions of $1.5 million, primarily in the Asia segment.

Gross profit

	Three Months Ended	
	March 27, 2016	March 29, 2015
	(Dollars in millions)	
Gross profit	$225.1	$222.6
Percentage of sales	53.0 %	51.8 %

Gross margin for the three months ended March 27, 2016 improved 120 basis points, or 2.2%, compared to the prior year period. The increase in gross margin reflects the 100 basis point impact of a net increase in sales of higher margin products, primarily in the Asia and Anesthesia North America segments as well as the operating segments included in the "All other" category. Gross margin was also favorably impacted by the 2015 acquisitions, distributor conversions and price increases, which were primarily reflected in the Asia, Surgical North America and Anesthesia North America segments, partially offset by the impact of certain quality issues, primarily items identified in 2015.

Selling, general and administrative

	Three Months Ended	
	March 27, 2016	March 29, 2015
	(Dollars in millions)	
Selling, general and administrative	$ 136.3	$ 139.7
Percentage of sales	32.1 %	32.5 %

Selling, general and administrative expenses decreased $3.4 million for the three months ended March 27, 2016 compared to the prior year period. The decrease is primarily attributable to the $3.2 million impact of the suspension of the 2.3% excise tax on sales of medical devices imposed under the Patient Protection and Affordable Care Act (the "Affordable Care Act"). The excise tax, which was in effect in 2015, has been suspended for 2016 and 2017 as a result of the enactment of the Consolidated Appropriations Act of 2016. Lower selling expense of $1.2 million and a reduction in general and administrative expenses also contributed to the reduction in selling, general and administrative expenses. These factors were partially offset by the impact of unfavorable fluctuations in foreign currency exchange rates of $4.3 million and expenses associated with the 2015 acquisitions of $1.2 million.

Research and development

	Three Months Ended	
	March 27, 2016	March 29, 2015
	(Dollars in millions)	
Research and development	$ 12.4	$ 12.9
Percentage of sales	2.9 %	3.0 %

There were no significant changes to research and development expense for the three months ended March 27, 2016 compared to the prior year.

Restructuring charges

	Three Months Ended	
	March 27, 2016	March 29, 2015
	(Dollars in millions)	
Restructuring charges	$ 10.0	$ 4.4

On February 23, 2016, our Board of Directors approved a restructuring plan that involves the consolidation of operations and a related reduction in workforce at certain of the Company's facilities (the "2016 Manufacturing Footprint Realignment Plan"). We estimate that we will incur aggregate pre-tax charges in connection with these restructuring activities of approximately $34 million to $44 million, of which, we expect approximately $21 million to $23 million to be incurred in 2016 and most of the balance will be incurred prior to the end of 2018. We estimate that

$27 million to $31 million of the aggregate pre-tax charges will result in future cash outlays, of which, we expect approximately $6 million to $8 million will be made in 2016 and most of the balance will be made prior to the end of 2018. Additionally, we expect to incur aggregate capital expenditures of approximately $13 million to $17 million, of which, $3 million to $5 million will be made in 2016. We currently expect to achieve annualized savings of $12 million to $16 million once the plan is fully implemented, and currently expect to realize plan-related savings beginning in 2017.

For the three months ended March 27, 2016, we recorded $10.0 million in restructuring charges, which primarily related to employee termination benefits recorded in connection with the 2016 Manufacturing Footprint Realignment Plan.
For the three months ended March 29, 2015, we recorded $4.4 million in restructuring charges, which primarily related to termination benefits recorded in connection with our 2015 restructuring programs.
See Note 3 to the condensed consolidated financial statements included in this report for additional information.
Interest expense

	Three Months Ended March 27, 2016	March 29, 2015
	(Dollars in millions)	
Interest expense	$13.8	$17.2
Average interest rate on debt	3.5 %	4.5 %

The decrease in interest expense for the three months ended March 27, 2016 compared to the prior year primarily reflects the impact of the June 2015 redemption of $250 million in principal amount of our 6.875% Senior Subordinated Notes, using $246 million of borrowings under our revolving credit facility, which bear a lower variable interest rate than the redeemed notes with a weighted average of 2.17%.
Taxes on income from continuing operations

	Three Months Ended March 27, 2016	March 29, 2015
Effective income tax rate	4.9%	19.2%

The effective income tax rate for the three months ended March 27, 2016 and March 29, 2015 was 4.9% and 19.2%, respectively. The decrease in the effective income tax rate for the three months ended March 27, 2016 is primarily due to a tax benefit realized on the settlement of a foreign tax audit as well as a tax benefit associated with a reduction in the estimated deferred tax with respect to non-permanently reinvested income due to an increase in the estimated foreign tax credits available to reduce the U.S. tax on a future repatriation.

Segment Financial Information

Segment Revenue	Three Months Ended March 27, 2016	March 29, 2015	% Increase/ (Decrease)
	(Dollars in millions)		
Vascular North America	$81.5	$80.8	1.0
Anesthesia North America	46.0	45.4	1.1
Surgical North America	38.9	38.1	2.3
EMEA	122.1	129.3	(5.6)
Asia	49.2	48.5	1.3
OEM	34.0	34.7	(2.1)
All other	53.2	52.6	1.0
Segment net revenues	$424.9	$429.4	(1.1)

Segment Operating Profit	Three Months Ended March 27, 2016	March 29, 2015	% Increase/ (Decrease)
	(Dollars in millions)		
Vascular North America	$19.7	$15.9	23.9
Anesthesia North America	12.2	10.0	22.0
Surgical North America	13.3	12.3	8.1
EMEA	21.0	26.3	(20.2)
Asia	13.0	8.1	60.5
OEM	5.2	8.0	(35.0)
All other	5.7	3.1	83.9
Segment operating profit (1)	$90.1	$83.7	7.6

(1) See Note 13 to our condensed consolidated financial statements included in this report for a reconciliation of segment operating profit to our condensed consolidated income from continuing operations before interest, extinguishment of debt and taxes.

Comparison of the three months ended March 27, 2016 and March 29, 2015

Vascular North America

Vascular North America net revenues for the three months ended March 27, 2016 increased $0.7 million, or 1.0%, compared to the prior year period. The increase is primarily attributable to price increases.

Vascular North America operating profit for the three months ended March 27, 2016 increased $3.8 million, or 23.9%, compared to the prior year period. The increase is primarily attributable to the $1.3 million impact of the suspension of the excise tax under the Affordable Care Act. Decreases in selling expense and research and development expense as well as the impact of price increases also contributed to the increase in operating profit.

Anesthesia North America

Anesthesia North America net revenues for the three months ended March 27, 2016 increased $0.6 million, or 1.1%, compared to the prior year period. The increase is primarily attributable to an increase in new product sales.

Anesthesia North America operating profit for the three months ended March 27, 2016 increased $2.2 million, or 22.0%, compared to the prior year period. The increase is primarily attributable to the impact of an increase in sales of higher margin products, operating profit generated by the 2015 acquisitions and an increase in sales volumes of existing products.

Surgical North America

Surgical North America net revenues for the three months ended March 27, 2016 increased $0.8 million, or 2.3%, compared to the prior year period. The increase is primarily attributable to price increases of $1.0 million and an increase in new product sales of $1.0 million, which were partially offset by a decrease in sales volumes of existing products.

Surgical North America operating profit for the three months ended March 27, 2016 increased $1.0 million, or 8.1%, compared to the prior year period. The increase is primarily attributable to the $1.0 million impact of price increases, the impact of an increase in new product sales and the impact of an increase in sales of higher margin products, which were partially offset by higher selling expense incurred to boost new product sales and the impact of a decrease in sales volumes of existing products.

EMEA

EMEA net revenues for the three months ended March 27, 2016 decreased $7.2 million, or 5.6%, compared to the prior year period. The decrease is primarily attributable to unfavorable fluctuations in foreign currency exchange rates of $4.8 million, a decrease in sales volumes of existing products of $2.7 million and price decreases, which were partially offset by an increase in new product sales.

EMEA operating profit for the three months ended March 27, 2016 decreased $5.3 million, or 20.2%, compared to the prior year period. The decrease is primarily attributable to the $3.0 million impact of unfavorable fluctuations in foreign currency exchange rates, higher manufacturing costs of $2.1 million, the $1.6 million impact of a decrease in sales volumes of our existing products and the impact of price decreases.

Asia

Asia net revenues for the three months ended March 27, 2016 increased $0.7 million, or 1.3%, compared to the prior year period. The increase is primarily attributable to price increases of $1.3 million, an increase in sales volumes of existing products of $1.1 million, and net revenues generated by the 2015 acquisitions, which were partially offset by unfavorable fluctuations in foreign currency exchange rates of $2.3 million.

Asia operating profit for the three months ended March 27, 2016 increased $4.9 million or 60.5%, compared to the prior year period. The increase is primarily attributable to the $2.2 million impact of an increase in sales of higher margin products, the $1.3 million impact of price increases, the $1.2 million impact of an increase in sales volumes of existing products and lower manufacturing costs. This increase was partially offset by unfavorable fluctuations in foreign currency exchange rates of $1.4 million.

OEM

OEM net revenues for the three months ended March 27, 2016 decreased $0.7 million, or 2.1%, compared to the prior year period. The decrease is primarily attributable to a decrease in sales volumes of existing products of $2.0 million partially offset by an increase in new product sales of $1.2 million.

OEM operating profit for the three months ended March 27, 2016 decreased $2.8 million, or 35.0%, compared to the prior year period. The decrease is primarily attributable to the $1.3 million impact of a decrease in sales of higher margin products, the impact of a decrease in sales volumes of existing products and lower manufacturing volumes, which were partially offset by the impact of an increase in new product sales.

All Other

Net revenues for our other businesses increased $0.6 million or 1.0% for the three months ended March 27, 2016, compared to the prior year period. The increase is primarily attributable to an increase in sales of new products of $1.1 million, partially offset by unfavorable fluctuations in foreign currency exchange rates.

Operating profit for our other businesses increased $2.6 million or 83.9% for the three months ended March 27, 2016, compared to the prior year period, primarily due to an increase in sales of higher margin products of $1.8 million and the impact of an increase in new product sales partially offset by higher manufacturing costs.

Liquidity and Capital Resources

We believe our cash flow from operations, available cash and cash equivalents, borrowings under our revolving credit facility and borrowings under our accounts receivable securitization facility will enable us to fund our operating requirements, capital expenditures and debt obligations for the next 12 months and the foreseeable future. We have net cash provided by United States based operating activities as well as non-United States sources of cash available to help fund our debt service requirements in the United States. We manage our worldwide cash requirements by monitoring the funds available among our subsidiaries and determining the extent to which we can access those funds on a cost effective basis. We are not aware of any restrictions on repatriation of these funds and, subject to cash payment of additional United States income taxes or foreign withholding taxes, these funds could be repatriated, if necessary. Any resulting additional taxes could be offset, at least in part, by foreign tax credits. The amount of any taxes required to be paid, which could be significant, and the application of tax credits would be determined based on income tax laws in effect at the time of such repatriation. We do not expect any such repatriation to result in additional tax expense because taxes have been provided for on unremitted foreign earnings that we do not consider permanently reinvested.

To date, we have not experienced significant payment defaults by our customers, and we have sufficient lending commitments in place to enable us to fund our anticipated additional operating needs. However, although there have been recent improvements in certain countries, global financial markets remain volatile and the global credit markets are constrained, which creates a risk that our customers and suppliers may be unable to access liquidity. Consequently, we continue to monitor our credit risk, particularly related to certain countries in Europe. As of March 27, 2016, our net current and long-term accounts receivable from publicly funded hospitals in Italy, Spain, Portugal and Greece were $42.3 million compared to $37.4 million as of December 31, 2015. For the three months ended March 27, 2016 and March 29, 2015, net revenues from customers in these countries were 7.3% and 8.0% of total net revenues, respectively, and average days that current and long-term accounts receivables were outstanding were 215 days and 230 days, respectively. As of both March 27, 2016 and December 31, 2015, net current and long-term accounts receivables from these countries were approximately 25.6% and 23.9%, respectively, of our consolidated net current and long-term accounts receivable. If economic conditions in these countries deteriorate, we may experience significant credit losses related to the public hospital systems in these countries. Moreover, if global economic conditions generally deteriorate, we may experience further delays in customer payments, reductions in our customers' purchases and higher credit losses, which could have a material adverse effect on our results of operations and cash flows in 2016 and future years.

Cash Flows

Cash flows from operating activities from continuing operations provided net cash of approximately $66.8 million for the first three months of 2016 compared to $42.4 million during the first three months of 2015. The $24.5 million increase is attributable to improved operating results and a net favorable impact from changes in working capital items, partially offset principally by an increase in income tax payments. The increase in net cash inflow from working capital items is primarily the result of a decrease in cash outflows for accounts receivable and inventories. The net cash outflow for accounts receivable was $10.6 million for the three months ended March 27, 2016 as compared to $21.9 million for the three months ended March 29, 2015. The decrease is attributable to improved collections. The net cash outflow for purchase of inventories for the three months ended March 27, 2016 was $5.1 million as compared to $14.6 million for the three months ended March 29, 2015. The decrease is attributable to service level improvements as well as a reduced need for inventory builds in support of distributor to direct conversions and the 2014 Manufacturing Footprint Realignment Plan.

Net cash used in investing activities from continuing operations was $6.6 million for the three months ended March 27, 2016, primarily resulting from capital expenditures of $7.8 million, partially offset by proceeds from asset sales of $1.3 million.

Net cash used in financing activities from continuing operations was $11.1 million for the three months ended March 27, 2016, primarily resulting from dividends paid of $14.2 million partially offset by $3.2 million of proceeds from option exercises under share based compensation plans.

Net Debt to Total Capital Ratio

The following table provides our net debt to total capital ratio:

	March 27, 2016	December 31, 2015 (1)
	(Dollars in millions)	
Net debt includes:		
Current borrowings	$421.2	$417.4
Long-term borrowings	642.0	641.9
Unamortized debt discount	19.5	23.0
Total debt	1,082.7	1,082.2
Less: Cash and cash equivalents	392.6	338.4
Net debt	$690.1	$743.8
Total capital includes:		
Net debt	$690.1	$743.8
Total common shareholders’ equity	2,059.2	2,009.3
Total capital	$2,749.3	$2,753.1
Percent of net debt to total capital	25.1 %	27.0 %

(1) Includes the impact of adopting the accounting standard related to debt issuance cost classification issued in April 2015. Refer to Note 2 and Note 6 to the condensed consolidated financial statements included in this report for additional information.

Our 3.875% Convertible Senior Subordinated Notes due 2017 (the "Convertible Notes") are convertible under certain circumstances, as described in Note 8 to the consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2015. Since the fourth quarter 2013, our closing stock price has exceeded the threshold for conversion and, accordingly, the Convertible Notes were classified as a current liability as of March 27, 2016 and December 31, 2015. We have elected a net settlement method to satisfy our conversion obligation, under which we may settle the principal amount of the Convertible Notes in cash and settle the excess of the conversion value of the Convertible Notes over the principal amount of the notes in shares; however, cash will be paid in lieu of fractional shares. While we believe we have sufficient liquidity to repay the principal amounts due through a combination of our existing cash on hand and borrowings under our credit facility, our use of these funds could adversely affect our results of operations and liquidity.

In April 2016, we exchanged cash and shares of our common stock for $219.2 million aggregate outstanding principal amount of the Convertible Notes (the “Exchange Transactions”). See Note 15 to the condensed consolidated financial statements included in this report for additional information regarding the Exchange Transactions. We funded the cash portion of the consideration paid in connection with the Exchange Transactions, in part, through borrowings under our revolving credit facility. Upon completion of the Exchange Transactions, at our current level of Consolidated EBITDA (as defined in our senior credit agreement), we had additional borrowing capacity under the facility of up to $230.1 million. Through March 27, 2016, we have received, but not yet settled, conversion notices with respect to $44.3 million in aggregate principal amount of the Convertible Notes (the “Unsettled Conversion Obligations”). As previously disclosed, we have elected the net settlement method to satisfy the conversion obligation, under which we will settle the principal amount of the Convertible Notes converted in cash and settle the excess conversion value in shares, plus cash in lieu of fractional shares. The Unsettled Conversion Obligations will be settled in May and June 2016, and we expect to fund the cash portion of the Unsettled Conversion Obligations with available cash or borrowings under our revolving credit facility.

Our senior credit agreement and the indentures under which we issued our 5.25% Senior Notes due 2024 (the “2024 notes”) contain covenants that, among other things, limit or restrict our ability, and the ability of our subsidiaries, to incur debt, create liens, consolidate, merge or dispose of certain assets, make certain investments, engage in acquisitions, pay dividends on, repurchase or make distributions in respect of capital stock and enter into swap agreements. Our senior credit agreement also requires us to maintain a consolidated leverage ratio (generally, the ratio of Consolidated Total Indebtedness to Consolidated EBITDA, each as defined in our senior credit agreement) of not more than 4.0:1 and a consolidated interest coverage ratio (generally, Consolidated EBITDA to Consolidated Interest Expense, each as defined in the senior credit agreement) of not less than 3.50:1 as of the last day of any period of four consecutive fiscal quarters calculated in accordance with the definitions and methodology set forth in the senior credit agreement. As of March 27, 2016, we are in compliance with these covenants. The obligations under the senior credit agreement and the 2024 notes are guaranteed (subject to certain exceptions) by substantially all of our material domestic subsidiaries, and the obligations under the senior credit agreement are (subject to certain exceptions and limitations) secured by a pledge on substantially all of the equity interests owned by us and each guarantor.

New Accounting Standards

See Note 2 to the condensed consolidated financial statements included in this report for a discussion of recently issued accounting standards, [including estimated effects,] if any, on our financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See the information set forth in Part II, Item 7A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures

(a) 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 the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are party to various lawsuits and claims arising in the normal course of business. These lawsuits and claims include actions involving product liability and product warranty, intellectual property, contracts, employment and environmental matters. As of March 27, 2016 and December 31, 2015, we have accrued liabilities of approximately $2.7 million and $2.5 million, respectively, in connection with these matters, representing our best estimate of the cost within the range of estimated possible loss that will be incurred to resolve these matters. Of the $2.7 million accrued at March 27, 2016, $1.5 million pertains to discontinued operations. Based on information currently available, advice of counsel, established reserves and other resources, we do not believe that any such actions are likely to be, individually or in the aggregate, material to our business, financial condition, results of operations or liquidity. However, in the event of unexpected further developments, it is possible that the ultimate resolution of these matters, or other similar matters, if unfavorable, may be materially adverse to our business, financial condition, results of operations or liquidity. See "Litigation" within Note 12 to the condensed consolidated financial statements included in this report for additional information.

Item 1A. Risk Factors

There have been no significant changes in risk factors for the quarter ended March 27, 2016. See the information set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

See Note 15 to the condensed consolidated financial statements included in this report for information regarding the reduction in the outstanding principal amount of Convertible Notes as a result of our exchange of cash and shares of our common stock for $219.2 million aggregate outstanding principal amount of the Convertible Notes, which information is incorporated herein by reference.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibit No.		Description
10.1	—	Senior Executive Officer Severance Agreement, dated March 31, 2016, between the Company and Tony Kennedy.
10.2	—	Executive Change In Control Agreement, dated March 31, 2016, between the Company and Tony Kennedy.
10.3	—	Senior Executive Officer Severance Agreement, dated March 31, 2016, between the Company and Karen Boylan.
10.4	—	Executive Change In Control Agreement, dated March 31, 2016, between the Company and Karen Boylan.
31.1	—	Certification of Chief Executive Officer, pursuant to Rule 13a–14(a) under the Securities Exchange Act of 1934.
31.2	—	Certification of Chief Financial Officer, pursuant to Rule 13a–14(a) under the Securities Exchange Act of 1934.
32.1	—	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.
32.2	—	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.
101.1	—	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended March 27, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income for the three months ended March 27, 2016 and March 29, 2015; (ii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 27, 2016 and March 29, 2015; (iii) the Condensed Consolidated Balance Sheets as of March 27, 2016 and December 31, 2015; (iv) the Condensed Consolidated Statements of Cash Flows for the three months ended March 27, 2016 and March 29, 2015; (v) the Condensed Consolidated Statements of Changes in Equity for the three months ended March 27, 2016 and March 29, 2015; and (vi) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements 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.

TELEFLEX INCORPORATED

By: /s/ Benson F. Smith
Benson F. Smith
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Thomas E. Powell
Thomas E. Powell
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: April 28, 2016

42