VISA INC.
Form 10-Q
May 03, 2010
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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, 2010

OR

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

For the transition period from to

Commission file number 001-33977

VISA INC.

(Exact name of Registrant as specified in its charter)

Delaware	**26-0267673**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
P.O. Box 8999	
San Francisco, California	**94128-8999**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (415) 932-2100

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 þ No ¨

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 þ No ¨

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company.)	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 ¨ No þ

As of April 23, 2010, there were 494,994,456 shares of class A common stock, par value $.0001 per share, 245,513,385 shares of class B common stock, par value $.0001 per share and 99,255,836 shares of class C common stock, par value $.0001 per share, of Visa Inc. outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

VISA INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 31, 2010	September 30, 2009
	(in millions)	
Assets		
Cash and cash equivalents	**$ 4,560**	$ 4,617
Restricted cash litigation escrow (Note 2)	**1,365**	1,365
Investment securities		
Trading	**63**	59
Available-for-sale	**22**	56
Settlement receivable	**666**	605
Accounts receivable	**502**	444
Customer collateral (Note 5)	**842**	812
Current portion of volume and support incentives	**212**	214
Current portion of deferred tax assets	**470**	703
Prepaid expenses and other current assets	**413**	366
Total current assets	**9,115**	9,241
Restricted cash litigation escrow (Note 2)	**210**	350
Investment securities, available-for-sale	**154**	168
Volume and support incentives	**129**	102
Property, equipment and technology, net	**1,183**	1,204
Other assets	**186**	125
Intangible assets	**10,883**	10,883
Goodwill	**10,208**	10,208
Total assets	**$ 32,068**	$ 32,281
Liabilities		
Accounts payable	**$ 78**	$ 156
Settlement payable	**618**	634
Customer collateral (Note 5)	**842**	812
Accrued compensation and benefits	**276**	396
Volume and support incentives	**343**	284
Accrued liabilities	**698**	754
Current portion of long-term debt	**12**	12
Current portion of accrued litigation (Note 10)	**670**	1,394
Total current liabilities	**3,537**	4,442
Long-term debt	**38**	44
Accrued litigation (Note 10)	**196**	323
Deferred tax liabilities	**3,808**	3,807
Other liabilities	**502**	472

Total liabilities	**8,081**	9,088

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED BALANCE SHEETS (Continued)

(UNAUDITED)

	March 31, 2010	September 30, 2009
	(in millions, except par value)	
Equity		
Preferred stock, $0.0001 par value, 25 shares authorized and none issued		
Class A common stock, $0.0001 par value, 2,001,622 shares authorized, 494 and 470 shares issued and outstanding at March 31, 2010, and September 30, 2009, respectively (Note 6)		
Class B common stock, $0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at March 31, 2010, and September 30, 2009		
Class C common stock, $0.0001 par value, 1,097 shares authorized, 100 and 131 shares issued and outstanding at March 31, 2010, and September 30, 2009, respectively (Note 6)		
Additional paid-in capital	**20,883**	21,160
Class C treasury stock		(2)
Accumulated income	**3,199**	2,219
Accumulated other comprehensive loss, net		
Investment securities, available-for-sale	**9**	10
Defined benefit pension and other postretirement plans	**(71)**	(136)
Derivative instruments	**(39)**	(58)
Foreign currency translation gain (loss)	**2**	(4)
Total accumulated other comprehensive loss, net	**(99)**	(188)
Total Visa Inc. stockholders equity	**23,983**	23,189
Non-controlling interest	**4**	4
Total equity	**$ 23,987**	$ 23,193
Total liabilities and equity	**$ 32,068**	$ 32,281

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
	(in millions except per share data)			
Operating Revenues				
Service revenues	**$ 885**	$ 804	**$ 1,712**	$ 1,597
Data processing revenues	**728**	544	**1,493**	1,098
International transaction revenues	**545**	446	**1,097**	951
Other revenues	**173**	148	**363**	304
Volume and support incentives	**(372)**	(295)	**(746)**	(564)
Total operating revenues	**1,959**	1,647	**3,919**	3,386
Operating Expenses				
Personnel	**310**	292	**584**	591
Network, EDP and communications	**98**	92	**203**	185
Advertising, marketing and promotion	**238**	196	**454**	406
Professional and consulting fees	**50**	64	**101**	120
Depreciation and amortization	**62**	56	**124**	108
Administrative and other	**77**	66	**155**	129
Litigation provision (Note 10)	**2**		**(41)**	
Total operating expenses	**837**	766	**1,580**	1,539
Operating income	**1,122**	881	**2,339**	1,847
Other Income (Expense)				
Equity in earnings of unconsolidated affiliates	**(2)**	1	**(2)**	
Interest expense	**(28)**	(30)	**(44)**	(60)
Investment income, net	**23**	34	**28**	53
Other	**(2)**	1		
Total other (expense) income	**(9)**	6	**(18)**	(7)
Income before income taxes	**1,113**	887	**2,321**	1,840
Income tax expense	**401**	352	**846**	731
Net income including non-controlling interest	**712**	535	**1,475**	1,109
Loss attributable to non-controlling interest	**1**	1	**1**	1
Net income attributable to Visa Inc	**$ 713**	$ 536	**$ 1,476**	$ 1,110

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
	(in millions except per share data)			
Basic earnings per share (Notes 6 and 7)				
Class A common stock	**$ 0.97**	$ 0.71	**$ 1.99**	$ 1.45
Class B common stock	**$ 0.56**	$ 0.45	**$ 1.16**	$ 0.96
Class C common stock	**$ 0.97**	$ 0.71	**$ 1.99**	$ 1.45
Basic weighted average shares outstanding (Notes 6 and 7)				
Class A common stock	**472**	447	**470**	447
Class B common stock	**245**	246	**245**	246
Class C common stock	**122**	152	**125**	152
Diluted earnings per share (Notes 6 and 7)				
Class A common stock	**$ 0.96**	$ 0.71	**$ 1.99**	$ 1.45
Class B common stock	**$ 0.56**	$ 0.45	**$ 1.16**	$ 0.96
Class C common stock	**$ 0.96**	$ 0.71	**$ 1.99**	$ 1.45
Diluted weighted average shares outstanding (Notes 6 and 7)				
Class A common stock	**742**	756	**743**	765
Class B common stock	**245**	246	**245**	246
Class C common stock	**122**	152	**125**	152

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
	(in millions)			
Net income including non-controlling interest	**$ 712**	$ 535	**$ 1,475**	$ 1,109
Other comprehensive income (loss), net of tax:				
Investment securities, available-for-sale				
Net unrealized (loss) gain	**(5)**	1	**(4)**	8
Income tax effect	**2**		**2**	(3)
Reclassification adjustment for net loss realized in net income including non-controlling interest	**3**		**2**	
Income tax effect	**(1)**		**(1)**	
Defined benefit pension and other postretirement plans (Note 4)	**102**		**106**	1
Income tax effect	**(40)**		**(41)**	
Derivative instruments				
Net unrealized (loss) gain	**(5)**	6	**(8)**	(9)
Income tax effect	**2**	(2)	**3**	4
Reclassification adjustment for net loss realized in net income including non-controlling interest	**21**	6	**36**	6
Income tax effect	**(7)**	(3)	**(12)**	(3)
Foreign currency translation gain (loss)	**4**	(2)	**6**	(22)
Other comprehensive income (loss), net of tax	**76**	6	**89**	(18)
Comprehensive income including non-controlling interest	**$ 788**	$ 541	**$ 1,564**	$ 1,091
Comprehensive loss attributable to non-controlling interest	**1**	1	**1**	1
Comprehensive income attributable to Visa Inc	**$ 789**	$ 542	**$ 1,565**	$ 1,092

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(UNAUDITED)

	Class A	Class B	Class C	Additional Paid In Capital	Treasury Stock	Accumulated Income	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
				(in millions, except per share data)					
Balance as of September 30, 2009	470	245	131	$ 21,160	$ (2)	$ 2,219	$ (188)	$ 4	$ 23,193
Net income attributable to Visa Inc						1,476			1,476
Loss attributable to non-controlling interest								(1)	(1)
Other comprehensive income, net of tax							89		89
Comprehensive income including non-controlling interest									1,564
Issuance of restricted share awards (Note 8)	1								
Conversion of class C common stock upon sale into public market (Note 6)	31		(31)						
Share-based compensation (Note 8)				61					61
Tax benefit for share-based compensation				8					8
Cash proceeds from exercise of stock options				21					21
Restricted stock instruments settled in cash for taxes				(12)					(12)
Cash dividends declared and paid, at a quarterly amount of $0.125 per as-converted share (Note 6)						(185)			(185)
Retirement of treasury stock				(2)	2				
Repurchase of class A common stock (Note 6)	(8)			(353)		(311)			(664)
Special IPO dividends received from cost-method investee				1					1
Investment in partially owned consolidated subsidiary				(1)				1	
Balance as of March 31, 2010	**494**	**245**	**100**	**$ 20,883**	**$**	**$ 3,199**	**$ (99)**	**$ 4**	**$ 23,987**

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended March 31,	
	2010	**2009**
	(in millions)	
Operating Activities		
Net income including non-controlling interest	**$ 1,475**	$ 1,109
Adjustments to reconcile net income including non-controlling interest to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and technology	**124**	108
Share-based compensation	**61**	64
Tax benefit for share-based compensation	**(8)**	(6)
Restricted stock instruments settled in cash for taxes	**(12)**	(22)
Interest earned on litigation escrow, net of tax		(12)
Net recognized (gain) loss on investment securities, including other-than-temporary impairment	**(14)**	8
Asset impairment	**1**	3
Gain on disposal of property, equipment, and technology	**(1)**	
Amortization of volume and support incentives	**746**	564
Accrued litigation and accretion	**(25)**	48
Equity in earnings of unconsolidated affiliates	**2**	
Deferred income taxes	**185**	338
Change in operating assets and liabilities:		
Trading securities	**(4)**	17
Accounts receivable	**(58)**	(30)
Settlement receivable	**(61)**	252
Volume and support incentives	**(712)**	(464)
Other assets	**(141)**	(9)
Accounts payable	**(78)**	(87)
Settlement payable	**(16)**	(335)
Accrued compensation and benefits	**(120)**	(146)
Accrued and other liabilities	**62**	80
Accrued litigation	**(826)**	(1,062)
Net cash provided by operating activities	**580**	418
Investing Activities		
Investment securities, available-for-sale:		
Purchases	**(1)**	
Proceeds from sales and maturities	**45**	252
Distributions from money market investment (Note 3)	**85**	840
Purchases of /contributions to other investments	**(1)**	(1)
Proceeds from sale of other investments	**1**	
Dividends/distributions from other investments	**1**	1
Proceeds from disposal of property, equipment and technology	**1**	
Purchases of property, equipment and technology	**(79)**	(136)
Net cash provided by investing activities	**52**	956

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

	Six Months Ended March 31,	
	2010	**2009**
	(in millions)	
Financing Activities		
Tax benefit for share-based compensation	**8**	6
Cash proceeds from exercise of stock options	**21**	2
Funding of litigation escrow account Retrospective Responsibility Plan		&nbiv>

CSRO royalty buyout	3,000	3,000	6 years (1)	
Website development costs	2,983	2,975	0-3 years	
Website development costs-in process	157	—	0-3 years	
	30,890	30,725		
Less accumulated amortization	10,183	9,389		
	$20,707	$21,336		

(1) See Note 11 regarding subsequent event.

The Company recorded $794,000 and $581,000 in amortization expense related to these intangible assets in the three-month periods ended March 31, 2011 and 2010, respectively.

Estimated future amortization expense for intangible assets subsequent to December 31, 2010 for the next five years is as follows (in thousands):

2011	$3,184
2012	2,871
2013	2,532
2014	2,183
2015	2,183
	$12,953

(11) Subsequent Event

On April 19, 2011 the Company announced the United States Patent and Trademark Office (USPTO) has allowed U.S. Patent Application No. 11/010,828 entitled “Sustained Release Aminopyridine Composition.” The claims of the patent application relate to methods to improve walking in patients with multiple sclerosis (MS) by administering 10 mg of sustained release 4-aminopyridine (dalfampridine) twice daily. The patent that issues from this application, which will be eligible for listing in the U.S. Food and Drug Administration Orange Book, is set to expire in early February 2026, based on the USPTO’s calculated patent term adjustment of 413 days, which the Company is currently evaluating. The Company is currently evaluating the impact on the period for the amortization of the Ampyra intangible assets.

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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

Since we commenced operations in 1995, we have devoted substantially all of our resources to the identification, development and commercialization of novel therapies that improve neurological function in people with MS and other neurological disorders. Ampyra, the first product for which we completed clinical development, was approved by the FDA in January 2010 for the improvement of walking in people with MS. This was demonstrated by an increase in walking speed. To our knowledge, Ampyra is the first and only product 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 U.S. in March 2010. Net revenue for Ampyra was $46.8 million for the three months ended March 31, 2011 and $3.1 million for the three months ended March 31, 2010. There was a 7.5% increase for the wholesale acquisition price of Ampyra effective March 4, 2011.

Our other marketed drug, Zanaflex Capsules, which we began marketing in 2005, is FDA-approved as a short-acting drug for the management of spasticity. Combined net revenue of Zanaflex Capsules and Zanaflex tablets, which we also sell, was $12.3 million for the three months ended March 31, 2010 and $12.2 million for the three months ended March 31, 2011. Managed care organizations have increasingly established plans and programs to drive utilization of low-cost generic tizanidine hydrochloride tablets over higher-cost Zanaflex Capsules by making it more difficult for patients to obtain Zanaflex Capsules through restrictions and higher out-of-pocket (copay) costs.

Ampyra is being marketed in the U.S. through our own specialty sales force and commercial infrastructure, which is also responsible for sales and marketing of Zanaflex Capsules. We completed the expansion of our sales force in March 2010 and currently have approximately 100 sales representatives in the field calling on a priority target list of approximately 10,000 physicians. We also have established teams of Regional Scientific Managers, Business Relations Directors, and Managed Markets account managers who provide information relating to Ampyra to physicians and payers.

Ampyra is available only through a network of specialty pharmacy providers that provide the medication to patients by mail, Kaiser Permanente (Kaiser), and the U.S. Department of Veterans Affairs (VA), and is supported by Ampyra Patient Support Services (APSS), a dedicated resource for healthcare providers and people with MS. The distribution process through specialty pharmacies is well established within the MS community, and physicians and patients are familiar with this model. Prior to the launch of Ampyra, we contracted with a third party organization with extensive experience in coordinating patient benefits to run APSS. The customer care agents at Ampyra Patient Support Services are responsible for helping healthcare professionals process prescriptions, working with insurance carriers to facilitate coverage, and directing patients to available copay and patient assistance programs. The process begins when a prescription is submitted by a physician to APSS. Once this process is completed, the prescription is sent to a specialty pharmacy, which confirms the insurance benefits and mails the prescription directly to the patient. In some cases, the specialty pharmacy rather than APSS performs the insurance benefits investigation or receives a submitted prescription directly.

Processing of most incoming requests for prescriptions by APSS now begins within 24 hours of receipt. Patients will experience a range of times to receive their first shipment based on their insurance requirements. As with any new

prescription product, patients who are members of benefit plans that have restrictive prior authorizations may experience delays in receiving their prescription.

Our Managed Markets account managers continue to meet with payers to provide information on Ampyra and discuss patient access. As of March 31, 2011, approximately 75% of commercially-insured individuals had no or limited prior authorizations (PAs) 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 walking impairment; such documentation may include a Timed 25-Foot Walk (T25W) test. As of March 31, 2011, approximately 20% of commercially-insured individuals were subject to more restrictive PAs, which may include requirements for multiple timed walk tests and/or EDSS (Expanded Disability Status Scale) score requirements to initiate therapy, and/or objective measures of ambulation improvement to reauthorize Ampyra therapy. We estimate that, as of March 31, 2011, approximately 5% of commercially-insured

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individuals were blocked from receiving reimbursement for Ampyra. Access figures were calculated based on the number of pharmacy lives reported by commercial healthcare plans.

As of March 31, 2011, inventory levels at the specialty pharmacy providers that distribute Ampyra (excluding Kaiser and the specialty distributor to the VA) were approximately two-weeks. The specialty pharmacy providers, Kaiser and the specialty distributor to the VA are contractually obligated to hold no more than 30 days of inventory.

On May 5, 2011, the Company announced that net sales of Ampyra for the first quarter of 2011 were $46.8 million. Although this represented a decline in net sales in the first quarter compared to the fourth quarter of 2010, total prescriptions were flat quarter over quarter. The Company had originally believed that sales of Ampyra might decrease in the fourth quarter of 2010 due to the discontinuations from Ampyra therapy of some patients who were part of the initial large bolus of pent up demand for Ampyra early in the launch. Instead, sales were up in the fourth quarter and the expected decline in sales materialized early in the first quarter of 2011 primarily due to variability in the timing of orders by the specialty pharmacies.

As the Company disclosed in the fourth quarter, data from IMS Health, a provider of market intelligence to the pharmaceutical and healthcare industries, were not accurate in that quarter with regard to either the trends or the absolute volumes of total prescriptions (TRx) or new prescriptions (NRx). At the beginning of the year, IMS said that it had changed its methodology. As of the date of this filing, restated IMS weekly data for the first quarter of 2011 were accurate with regard to the trend for total prescriptions (TRx) of Ampyra but were not accurate regarding the trends for new prescriptions (NRx) or the absolute volumes of either total or new prescriptions. Quarter over quarter TRx trends also were not accurate between the fourth quarter of 2010 and first quarter of 2011.

The FDA granted Ampyra orphan drug status, which provides seven years of market exclusivity for the drug. In addition, we have issued patents that cover the formulation and use of Ampyra. We filed for patent term extension for Ampyra pursuant to the provisions of the Hatch-Waxman Act that allows for up to five additional years of patent protection based on the development timeline of a drug. Although we have applied to extend both Ampyra patents listed in the FDA Orange Book, we will ultimately need to select only one patent for extension, if both are granted.

In 2010, we received non-final rejection letters from the U.S. Patent and Trademark Office (USPTO) on two patent applications for Ampyra filed in late 2004 and early 2005. In November 2010, we timely responded to the letter regarding the 2005 application, and in March 2011 we timely responded to the letter regarding the 2004 application. Subsequently, on April 19, 2011, the Company announced that USPTO has allowed U.S. Patent Application No. 11/010,828 entitled “Sustained Release Aminopyridine Composition,” the patent that was the subject of the 2004 application. The claims of the patent application relate to methods to improve walking in patients with multiple sclerosis (MS) by administering 10 mg of sustained release 4-aminopyridine (dalfampridine) twice daily. The patent that issues from this application, which will be eligible for listing in FDA Orange Book, is set to expire in early February 2026, based on the USPTO’s calculated patent term adjustment of 413 days, which the Company is currently evaluating.

In November 2010, the European Patent Office (EPO) posted a Communication of Intention to Grant a Patent for a patent application we submitted with “composition for use” and other use claims directed to sustained release aminopyridine compositions for, among other things, increased walking speed, improving lower extremity muscle strength, or improving lower extremity muscle tone, in patients with MS. We timely paid the grant fee for this application in March 2011. A corresponding patent is currently under review by the USPTO. The USPTO operates independently of the EPO, and the EPO’s decision should not be taken to indicate the outcome for the U.S. patent.

In June 2009, we entered into the Collaboration Agreement with Biogen Idec. In January 2010, Biogen Idec announced that it submitted a centralized Marketing Authorization Application (MAA) to the European Medicines Agency (EMA) and a New Drug Submission (NDS) to Health Canada for Ampyra, which is known outside the U.S. as fampridine. In January 2011, the EMA's Committee for Medicinal Products for Human Use (CHMP) decided against approval. Biogen Idec has filed an appeal to request a re-examination of the decision by the CHMP. We are working closely with Biogen Idec on a formal appeal of the decision. The appeal process generally takes up to six months. Biogen Idec received a Notice of Deficiency from Health Canada regarding its application for approval of Fampyra in Canada, to which it intends to respond. Health Canada will have approximately a year to reply to that response.

We have three research and development programs focused on novel approaches to repair damaged components of the CNS. We believe all of our research and development programs—neuregulins, remyelinating antibodies and chondroitinase—have broad applicability and have the potential to be first-in-class therapies. While these programs have initially been focused on MS and spinal cord injury (SCI), we believe they may be applicable across a number of CNS disorders, including stroke and traumatic brain injury, because many of the mechanisms of tissue damage and repair are

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similar. In addition, we believe that these programs may have applicability beyond the nervous system, including in the field of cardiology.

In March 2010, we filed an Investigational New Drug (IND) application for Glial Growth Factor 2 (GGF2), the lead product candidate for our neuregulins program, as a therapy for heart failure, and in April 2010 the IND became effective. In December 2010, the first patient was enrolled in the first clinical trial of GGF2. Acorda is collaborating with the Vanderbilt University Heart and Vascular Institute to conduct this Phase 1 single-dose trial in patients with heart failure. 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 either by entering into a partnership, most likely with a cardiovascular-focused company, or developing it on our own. We and Vanderbilt University received a $1 million Cardiac Translational Research Implementation Program (C-TRIP) grant from the National Heart, Lung and Blood Institute (NHLBI) to support research on GGF2 separate from the Phase 1 clinical trial. If these studies are successful, Acorda and Vanderbilt will be eligible to apply for a second phase C-TRIP grant of at least $7.5 million.

We began work with a contract manufacturer in 2009 to scale up manufacturing and purification processes for one of the remyelinating antibodies, rHIgM22, under cGMP for preparation for a future IND application. These manufacturing processes have been completed and we are now in formal preclinical safety and toxicity studies. If rHIgM22 proves to have a satisfactory preclinical safety profile, we expect to file an IND for the treatment of MS. We also are continuing research on the potential use of chondroitinases for the treatment of injuries to the brain and spinal cord. The chondroitinase program is in the research and translational development phases and has not yet entered formal preclinical development.

We have had significant operating losses since inception as a result of our focus on clinical and research and development activities and our goal of building an internal sales, managed markets and marketing organization in the U.S. We may incur losses for the next several years as we continue to support an expanded sales and marketing organization and other activities in connection with the commercialization of Ampyra and the advancement of our clinical and preclinical development programs. Our current guidance is for Ampyra 2011 full year net revenue to increase over the prior year to $205-$230 million. Selling, general and administrative (SG&A) expenses for the full year 2011 are currently expected to be $130-$140 million excluding share based compensation charges. SG&A will be primarily driven by commercial and administrative costs related to Ampyra. Research and development (R&D) expenses for the full year 2011 are currently expected to be $40-$45 million excluding share based compensation charges. R&D expenses in 2011 include post-marketing studies for Ampyra and continuing development expenses for our pipeline products, including Phase 1 clinical trials for GGF2. The projected amounts of SG&A and R&D for the full year 2011 in this paragraph and elsewhere in this report are non-GAAP financial measures because they exclude share-based compensation charges. 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 our 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 help indicate underlying trends in our business, and are important in comparing current results with prior period results and understanding projected operating performance. Also, management uses non-GAAP financial measures that exclude share-based compensation charges to establish budgets and operational goals, and to manage the Company’s business and to evaluate its performance.

We will also continue to explore opportunities to expand our pipeline through the potential in-licensing and/or acquisition of select products and technologies in neurology. We are interested in both clinical and commercial stage products, with a particular focus on Phase 2 product candidates and products that would reach the commercial stage in 2012 or beyond, although we are open to assessing compounds at other stages as well.

On April 19, 2011, Peder Jensen, M.D., was elected to the Company's Board of Directors to replace Wise Young, Ph.D., M.D., who resigned from the Board on the same day. Dr. Jensen has more than 24 years of global drug development experience in both pharmaceutical and biotechnology companies, across therapeutic areas including neurology, cardiovascular, anti-infective, oncology, and immunology. Dr. Jensen's experience includes over 20 years with Schering-Plough Corporation, the global pharmaceutical company, and then Merck & Co., Inc. after the merger of Schering-Plough with Merck in 2009. During his tenure at Schering-Plough/Merck, Dr. Jensen held a number of global senior research and development positions, including most recently Corporate Senior Vice President, and General Manager, R&D for Japan and Asia/Pacific. Dr. Young, who served on the Company's Board since the Company's founding in 1995, will continue to advise the company in a consulting role as Special Scientific Advisor.

In August 2007, the Company received a Paragraph IV Certification Notice from Apotex Inc. advising that it had submitted an ANDA to the FDA seeking marketing approval for generic versions of Zanaflex Capsules. In October 2007, the

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Company filed a lawsuit against Apotex Corp. and Apotex Inc. (collectively, Apotex) for patent infringement in relation to the filing of the ANDA by Apotex. The defendants answered the Company's complaint, asserting patent invalidity and non-infringement and counterclaiming, seeking a declaratory judgment of patent invalidity and non-infringement. The Company denied those counterclaims. On July 2, 2010, the U.S. District Court held a Markman hearing to determine the interpretation of certain terms in the Company's Zanaflex Capsules patent that is at issue in this litigation. The Court ruled favorably on a number of those terms, and the case is proceeding. The court initially set a trial date of April 25, 2011, but has moved the trial date to May 9, 2011.

Our timely filing of a lawsuit against Apotex in October 2007 triggered an automatic stay on FDA approval of the Apotex ANDA for 30 months. That stay expired in March 2010. Consequently, Apotex will be able to receive FDA approval of its ANDA, if Apotex is able otherwise to satisfy FDA's review requirements for ANDAs, at which time it could begin selling a generic tizanidine hydrochloride capsule in competition with Zanaflex Capsules and Zanaflex tablets, even if our patent litigation remains pending. If Apotex begins selling its product before it is successful in challenging the validity, infringement, or enforceability of our patent, Apotex would be selling at the risk of our ultimately prevailing on our patent infringement claims and its being held liable for damages for patent infringement.

The Company accrues for amounts related to loss contingencies if it is probable that a liability has been incurred and the amount is reasonably estimable. As of March 31, 2011, there have been no accruals for loss contingencies aside from payments related to the litigation itself.

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Results of Operations

Three-Month Period Ended March 31, 2011 Compared to March 31, 2010

Net Revenue

Ampyra

We recognize product sales of Ampyra following shipment of product to a network of specialty pharmacy providers, Kaiser and the specialty distributor to the VA. We recognized net revenue from the sale of Ampyra of $46.8 million and $3.1 million for the three-month periods ended March 31, 2011 and 2010, respectively. There was a 7.5% increase for the wholesale acquisition price of Ampyra effective March 4, 2011.

Discounts and allowances which are included as an offset in net revenue consists 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 and the specialty distributor to the VA. For the three-month period ended March 31, 2011 discounts and allowances also consisted of rebate allowances for the new Medicare Part D coverage gap (see also discussion under the “Healthcare Reform” header below). Discounts and allowances may increase as a percentage of sales as we enter into managed care contracts in the future and we incur costs incurred related to new Healthcare Reform Medicare rebates described under the “Healthcare Reform” header below.

Our current guidance is for Ampyra 2011 full year net revenue to increase over the prior year to $205-$230 million.

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 recognized net revenue from the sale of Zanaflex Capsules and Zanaflex tablets of $12.2 million for the three-month period ended March 31, 2011, as compared to $12.3 million for the three-month period ended March 31, 2010. The decrease was due to a decrease in prescriptions due to increasing managed care pressure, among other factors offset by a 9% price increase for Zanaflex Capsules effective November 1, 2010. Sales of Zanaflex Capsules may decline in 2011.

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

Healthcare Reform

In March 2010, healthcare reform legislation was enacted in the U.S. This legislation contains several provisions that will affect our business. Beginning in 2011, the new law requires drug manufacturers to provide a 50% discount to Medicare beneficiaries whose prescription drug costs cause them to be subject to the Medicare Part D coverage gap (i.e., the “donut hole”). An estimate for the first quarter Ampyra donut hole rebates was recorded during the three-month period ended March 31, 2011. We did not record anything for Zanaflex for the three-month period ended March 31, 2011 because we do not expect the amount for Zanaflex to be material. We expect that the amounts of the donut hole rebates to be recorded for Ampyra in the three-month periods ending June 30, 2011 and September 30, 2011 will increase over the amount recorded for the three-month period ended March 31, 2011 as the number of patients subject to the donut hole increases over these quarters.

Also, beginning in 2011, the new healthcare reform legislation requires certain drug manufactures to pay a new excise drug fee. It is based on certain government sales of certain branded prescription drug sales in 2009. We believe this fee will not be material to our 2011 financial statements.

License and Royalty Revenue

The Company recognized $2.4 million in license and royalty revenue primarily related to the $110.0 million received from Biogen Idec in 2009 for the three-month periods ended March 31, 2011 and 2010.

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On January 21, 2011 Biogen Idec announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) decided against approval of fampridine to improve walking ability in adult patients with multiple sclerosis. Biogen Idec has appealed this opinion and requested a re-examination of the decision by the CHMP. We changed the amortization period on a prospective basis during the three-month period ended March 31, 2011 by 5 months and currently estimate the recognition period to be approximately 12 years from the date of the Collaboration Agreement.

Cost of Sales

Ampyra

We recorded cost of sales of $9.7 million for the three-month period ended March 31, 2011 as compared to $688,000 for the three-month period ended March 31, 2010. Cost of sales for the three-month period ended March 31, 2011 consisted primarily of $8.5 million in inventory costs related to recognized revenues. Cost of sales for the three-month period ended March 31, 2011 also consisted of $970,000 in royalty fees based on net sales, $225,000 in amortization of intangible assets, and $32,000 in period costs related to packaging, freight and stability testing.

Cost of sales for the three-month period ended March 31, 2010 consisted primarily of $525,000 in inventory costs related to recognized revenues. Our launch stock inventory was received in bulk form prior to regulatory approval; therefore, the manufacturing cost associated with this inventory was classified as research and development expense as there was no alternative future use prior to regulatory approval. This expensed inventory represented approximately 8% of the total cost basis of our launch stock inventory. The remaining packaged portion of the inventory cost was received after regulatory approval and thus capitalized. This reduction to our cost basis effectively reduced our cost of sales related to recognized revenues by approximately $45,000 for the three-month period ended March 31, 2010. Our reduced cost basis inventory was sold during the year ended December 31, 2010 and as of this date we are not carrying any launch inventory on our balance sheet with a reduced costs basis.

Cost of sales for the three-month period ended March 31, 2010 also consisted of $114,000 in amortization of intangible assets, and $50,000 in period costs related to packaging, freight and stability testing.

Zanaflex

We recorded cost of sales of $2.3 million for the three-month period ended March 31, 2011 as compared to $2.4 million for the three-month period ended March 31, 2010. Cost of sales for the three-month period ended March 31, 2011 consisted of $1.1 million in inventory costs primarily related to recognized revenues, $800,000 in royalty fees based on net product shipments, $321,000 in amortization of intangible assets, which is unrelated to either the volume of shipments or the amount of revenue recognized, and $67,000 in period costs related to freight and stability testing. Cost of sales for the three-month period ended March 31, 2010 consisted of $1.2 million in inventory costs primarily related to recognized revenues, $807,000 in royalty fees based on net product shipments, $321,000 in amortization of intangible assets, which is unrelated to either the volume of shipments or the amount of revenue recognized, and $49,000 in period costs related to packaging, freight, and stability testing. Payments to and interest expense related to the PRF transaction discussed below in the section titled "Liquidity and Capital Resources" do not impact the Company's cost of sales.

Research and Development

Research and development expenses for the three-month period ended March 31, 2011 were $10.7 million as compared to $8.1 million for the three-month period ended March 31, 2010, an increase of approximately $2.6 million, or 33%. The increase was primarily attributable to clinical trial and statistical work of $2.9 million related to

post-marketing clinical studies of Ampyra. The increase was also attributable to an increase of $579,000 for work on our life cycle management program for Ampyra and an increase of $205,000 related to a Phase I GGF2 clinical trial.

The overall increase in research and development expenses was partially offset by a decrease related to a reduction in expenses allocated to research and development of $1.2 million for Ampyra manufacturing and stability work that was classified as research and development for the three-month period ended March 31, 2010 as it was incurred prior to FDA approval of the drug.

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Research and development (R&D) expenses for the full year 2011 are currently expected to be $40-$45 million excluding share based compensation charges. R&D expenses in 2011 include post-marketing studies for Ampyra and continuing development expenses for our pipeline products, including Phase 1 clinical trials for GGF2.

Selling, General and Administrative

Sales and marketing expenses for the three-month period ended March 31, 2011 were $22.4 million compared to $16.9 million for the three-month period ended March 31, 2010, an increase of approximately $5.5 million or 33%. This increase was primarily attributable to an increase of $3.9 million in marketing, trade and distribution expenses, managed markets, and various activities associated with Ampyra as well as an increase in staff and compensation of $1.6 million resulting from the expansion of our field sales staff and the overall commercial department in order to support the Ampyra brand.

General and administrative expenses for the three-month period ended March 31, 2011 were $15.5 million compared to $9.9 million for the three-month period ended March 31, 2010, an increase of approximately $5.6 million, or 57%. This increase was the result of a $3.2 million increase in legal expenses primarily related to litigation and general and administrative staff and compensation expenses related to supporting the growth of the overall organization, an increase in costs related to Ampyra post-approval, safety expenses of $1.2 million, an increase in medical affairs expenses including educational programs and research of $954,000, and an increase in business development expenses of $188,000.

Selling, general and administrative (SG&A) expenses for the full year 2011 are currently expected to be $130-$140 million excluding share based compensation charges. SG&A will be primarily driven by commercial and administrative costs related to Ampyra.

Other Expense

Other expense was $996,000 for the three-month period ended March 31, 2011 compared to $1.0 million for the three-month period ended March 31, 2010. Other expense for the three-month period ended March 31, 2011 consisted of interest expense principally related to the PRF revenue interest agreement of $1.1 million and interest income of $140,000. Other expense for the three-month period ended March 31, 2010 consisted of interest expense principally related to the PRF revenue interest agreement of $1.2 million and interest income of $204,000.

Liquidity and Capital Resources

We have incurred annual operating losses since inception and, as of March 31, 2011, we had an accumulated deficit of approximately $440.8 million. We have financed our operations primarily through private placements of our securities, public offerings of our common stock, our Collaboration and Licensing Agreement, sales of Zanaflex Capsules and Ampyra, and, to a lesser extent, from loans, government grants and our financing arrangement with PRF.

Financing Arrangements

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, EIS transferred these promissory notes to funds affiliated with Saints Capital. As of March 31, 2011, $3.8 million of these promissory notes plus $2.4 million of accrued interest was outstanding. The first of seven annual payments on this note was paid on the one year anniversary after Ampyra approval in January 2011.

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 and an additional $5.0 million in February 2007 as our net revenues during the fiscal year 2006 exceeded $25.0 million. Under the terms of the amendment, we paid PRF two $5.0 million payments on December 1, 2009 and December 1, 2010.

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Under the agreement and the amendment, PRF is entitled to the following portion of Zanaflex net revenues:

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

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

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

Notwithstanding the foregoing, once PRF has received and retained payments under the agreement that are at least 2.1 times the aggregate amount PRF has paid us under the agreement, PRF will only be entitled to 1% of Zanaflex net revenues. In connection with the transaction, we have a liability recorded, referred to as the revenue interest liability, of approximately $5.3 million. 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 5.7%. Payments made to PRF as a result of Zanaflex sales levels reduce the accrued interest liability and the principal amount of the revenue interest liability.

Investment Activities

At March 31, 2011, cash and cash equivalents and short-term investments were approximately $225.3 million, as compared to $240.0 million at December 31, 2010. As of March 31, 2011, our cash and cash equivalents consist of highly liquid investments with original maturities of three months or less at date of purchase and consist of time deposits and investments in a Treasury money market fund and high-quality government bonds. Also, we maintain cash balances with financial institutions in excess of insured limits. We do not anticipate any losses with respect to such cash balances. As of March 31, 2011, our cash and cash equivalents were $78.5 million, as compared to $34.6 million as of December 31, 2010. Our short-term investments consist of US Treasury bonds with original maturities greater than three months and less than one year. The balance of these investments was $146.9 million as of March 31, 2011, as compared to $205.4 million as of December 31, 2010.

Net Cash Used in Operations

Net cash used in operations was $12.1 million and $24.0 million for the three-month period ended March 31, 2011 and 2010, respectively. Cash used in operations for the three-month period ended March 31, 2011 was primarily attributable to a net decrease of 8.2 million due to changes in working capital items. It was also attributable to an increase in inventory held by the Company of $6.4 million, an increase in accounts receivable of $1.5 million resulting from a slight increase in Zanaflex gross sales and the 7.5% price increase for Ampyra effective in March 2011, a decrease in the non-current portion of deferred license revenue of $1.9 million due to the amortization of the upfront collaboration payment received during the three-month period ended September 30, 2009, a net loss of $672,000, and a decrease in the current portion of this deferred license revenue of $371,000. Cash used in operations for the three-month period ended March 31, 2011 was partially offset by a non-cash share-based compensation expense of $3.8 million, amortization of net premiums and discounts on short-term investments of $1.9 million, and depreciation and amortization of $1.1 million.

Cash used in operations for the three-month period ended March 31, 2010 was primarily attributable to a net loss of $21.1 million, an increase in inventory held by the Company of $16.8 million due to the launch of Ampyra, a decrease in the non-current portion of deferred cost of license revenue of $2.4 million, and an increase in accounts receivable of $2.2 million due to the launch of Ampyra. Cash used in operations for the three-month period ended March 31, 2010, was partially offset by an increase of $13.0 million due to changes in working capital items, a non-cash share-based compensation expense of $3.2 million, amortization of net premiums and discounts on short-term investments of $1.2 million, depreciation and amortization of $838,000, and a decrease in the non-current portion of deferred cost of license revenue of $165,000.

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Net Cash Provided by Investing

Net cash provided by investing activities for the three-month period ended March 31, 2011 was $55.8 million, primarily due to $99.5 million in proceeds of short-term investments which was partially offset by $42.8 million in purchases of short-term investments and $907,000 in purchases of intangible assets and property and equipment.

Net Cash Provided by Financing

Net cash provided by financing activities for the three-month period ended March 31, 2011 was $157,000 due to $392,000 in net proceeds from option exercises which was offset by $235,000 in repayments to PRF.

Future Capital Needs

Our current guidance is for Ampyra 2011 full year net revenue to increase over the prior year to $205-$230 million. Selling, general and administrative (SG&A) expenses for the full year 2011 are currently expected to be $130-$140 million excluding share based compensation charges. SG&A will be primarily driven by commercial and administrative costs related to Ampyra. Research and development (R&D) expenses for the full year 2011 are currently expected to be $40-$45 million excluding share based compensation charges. R&D expenses in 2011 include post-marketing studies for Ampyra and continuing development expenses for our pipeline products, including Phase 1 clinical trials for GGF2.

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

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

Contractual Obligations and Commitments

A summary of our minimum contractual obligations related to our major outstanding contractual commitments is included in our Annual Report on Form 10-K for the year ended December 31, 2010. Our long-term contractual obligations include commitments and estimated purchase obligations entered into in the normal course of business. Under certain supply agreements and other agreements with manufacturers and suppliers, we are required to make payments for the manufacture and supply of our clinical and approved products. During the three-month period ended March 31, 2011, commitments related to the purchase of inventory consistent with our normal course of business decreased as compared to the three-month period ended December 31, 2010. As of March 31, 2011, we have

inventory-related purchase commitments totaling approximately $15.7 million within the next year.

Under certain license agreements, we are required to pay royalties for the use of technologies and products in our R&D activities and in the commercialization of products. The amount and timing of any of the foregoing payments are not known due to the uncertainty surrounding the successful research, development and commercialization of the products.

Under certain license agreements, we are also required to pay license fees and milestones for the use of technologies and products in our R&D activities and in the commercialization of products. We have committed to make potential future milestone payments to third parties of up to approximately $32.1 million as part of our various collaborations, including licensing and development programs. Payments under these agreements generally become due and payable only upon achievement of certain developmental, regulatory or commercial milestones. Because the achievement of these milestones had not occurred as of March 31, 2011, such contingencies have not been recorded in our financial statements. Amounts related to contingent milestone payments are not considered contractual obligations as they are contingent on the

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successful achievement of certain development, regulatory approval and commercial milestones. There is uncertainty regarding the various activities and outcomes needed to reach these milestones, and they may not be achieved.

Critical Accounting Policies and Estimates

The following discussion of critical accounting policies identifies the accounting policies that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. It is not intended to be a comprehensive list of all of our significant accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which the selection of an available alternative policy would not produce a materially different result. We have identified the following as our areas of critical accounting policies: sales revenue recognition, inventory, research and development, income taxes, and share-based compensation.

Revenue Recognition

Ampyra

Ampyra is available only through a network of specialty pharmacy providers that provide the medication to patients by mail, Kaiser Permanente (Kaiser), and the U.S. Department of Veterans Affairs (VA). We recognize revenue by applying the guidance in Staff Accounting Bulletin (SAB) 104 which requires that we do 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 us, the obligation to pay is not contingent on resale of the product, the buyer has economic substance apart from us, the Company has no obligation to bring about the sale of the product, the amount of returns can be reasonably estimated and collectability is reasonably assured. We recognize product sales of Ampyra following shipment of product to a network of specialty pharmacy providers, Kaiser and the specialty distributor to the VA. As of March 31, 2011, inventory levels at specialty pharmacy providers that distribute Ampyra (does not include Kaiser or the specialty distributor to the VA) represented approximately two weeks of their anticipated usage. The specialty pharmacy providers, Kaiser, and the specialty distributor to the VA are contractually obligated to hold no more than 30 days of inventory.

Our net revenues represent total revenues less allowances for customer credits, including estimated rebates, discounts and returns. These allowances are recorded for cash consideration given by a vendor to a customer that is presumed to be a reduction of the selling prices of the vendor's products or services and, therefore, are characterized as a reduction of revenue. At the time product is shipped to specialty pharmacies, Kaiser and the specialty distributor to the VA, an adjustment is recorded for estimated chargebacks, rebates, 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 reserves. In determining the amounts of certain allowances and accruals, we must make significant judgments and estimates. Allowances for rebates, discounts and returns are established based on the contractual terms with customers, 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. Product shipping and handling costs are included in cost of sales.

Based on our specialty distribution model where we sell to only 12 specialty pharmacy providers, Kaiser and the specialty distributor to the VA, the data we receive from these distributors, and returns experience of other specialty products with similar selling models, we have been able to make a reasonable estimate for product returns. At March 31, 2011, inventory levels at the specialty pharmacy providers (this does not include Kaiser) represented approximately two weeks of their anticipated usage. The specialty pharmacy providers, Kaiser, and the specialty distributor to the VA have contractually agreed to hold no more than 30 days of inventory. We will accept returns of

Ampyra for two months prior to and six months after its expiration date. We will provide a credit to customers with whom we have a direct relationship. Once our product is prescribed, it cannot be returned. We do not exchange product from inventory for the returned product.

Zanaflex

We apply 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. We have accumulated some sales history with Zanaflex Capsules; however, due to existing and potential generic competition and customer conversion from Zanaflex tablets to Zanaflex Capsules, we cannot reasonably determine a return rate at this time and, thus, are not permitted to recognize revenue based on shipments to wholesalers. As a result, we account for sales of these products using a deferred revenue recognition model. We continue to accumulate data and when we are able to reasonably estimate

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product returns based on this data and based on greater certainty regarding generic competition we will then begin to recognize revenue based on shipments of product to our wholesale drug distributors.

Under our deferred revenue model, we do not recognize revenue following shipment of Zanaflex Capsules and Zanaflex tablets to our wholesale drug distributors. Instead, we record deferred revenue at gross invoice sales price, and classify the cost basis of the inventory held by the wholesaler as a component of inventory. We recognize revenue when prescriptions are filled to an end-user because once a prescription is filled the product cannot be returned. We use monthly prescription data that we purchase to determine the amount of revenue to be recognized. When we receive the prescription data, we use the number of units of product prescribed to record gross sales. We then reduce deferred revenue and record cost of goods sold.

In addition to the prescription data we purchase, we also receive data that we use to monitor trends in sales from wholesalers to their customers. We receive this data from an outside vendor on a monthly basis. This data includes the number of bottles shipped from certain wholesalers to their customers. We also compare our shipments to wholesalers to prescription reports to further assess inventory in the distribution channel on a monthly basis. We use the wholesaler sales trend data and the wholesaler vs. prescription comparison to better understand market conditions, but not as a basis for recognizing revenue. We have not made any shipments as a result of incentives to our wholesalers and our policy is not to ship in excess of our wholesalers' inventory levels maintained in the ordinary course of business.

Our 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 income. Adjustments are recorded for estimated chargebacks, rebates, and discounts. 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 reserves. Allowances for chargebacks, rebates and discounts are established based on the contractual terms with customers, analysis of historical levels of discounts, chargebacks and rebates, communications with customers and the levels of inventory remaining in the distribution channel, as well as expectations about the market for each product and anticipated introduction of competitive products. Product shipping and handling costs are included in cost of sales.

We accept returns of Zanaflex Capsules and Zanaflex tablets for six months prior to and twelve months after their expiration date. We provide a credit to customers with whom we have a direct relationship or a cash payment to those with whom we do not have a direct relationship. We do not exchange product from inventory for the returned product. Returns of products sold by us are charged directly against deferred revenue, reducing the amount of deferred revenue that we may recognize. In addition, we record a charge to cost of goods sold for the cost basis of the estimated product returns we believe may ultimately be realized at the time of product shipment to wholesalers. We recognize this charge at the date of shipment since it is probable that we will receive a level of returned products; upon the return of such product we will be unable to resell the product considering its expiration dating; and, we 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.

We initiated a product recall for three lots of Zanaflex Capsules in February 2011 due to two reports of empty Zanaflex Capsules that had been distributed to pharmacies and sold to patients. Returns of this recalled product are being charged directly against deferred revenue, reducing the amount of deferred revenue that we may recognize. Some shipments of Zanaflex Capsules during the three-month period ended March 31, 2011 were likely to replace this recalled product. Under the terms of our agreement with Elan, they are responsible for the cost of replacing the inventory and any reasonable and actual costs and expenses that we incur in connection with the recall.

Collaborations

We recognize collaboration revenues 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.

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Ampyra Inventory

Prior to regulatory approval of Ampyra in 2010, the Company incurred expenses for the manufacture of several batches of Ampyra that ultimately became available to support the commercial launch of this drug candidate. Until the necessary initial regulatory approval was received, we charged all such amounts to research and development expenses. As a result, our initial sales of Ampyra resulted in higher gross margins than if the inventory costs had not previously been expensed. Upon regulatory approval of Ampyra, the Company began capitalizing the commercial inventory costs associated with manufacturing with Elan and at its second manufacturer, Patheon.

The cost of Ampyra inventory manufactured by Elan is based on specified prices calculated as a percentage of net product sales of the product shipped by Elan to Acorda. In the event Elan does not manufacture the products, Elan is entitled to a compensating payment for the quantities of product provided by the alternative manufacturer. This compensating payment is included in our inventory balances.

Research and Development

Research and development expenses include the costs associated with our internal research and development activities including, employee compensation and benefits, occupancy costs, and research and development conducted for us by third parties, such as sponsored university-based research, clinical trial vendors, contract manufacturing for our preclinical program, costs of materials used in clinical trials and depreciation of capital resources used to develop our products and regulatory consulting to support our products. In addition, research and development expenses include expenses related to grant revenue, the cost of clinical trial drug supply shipped to our clinical study vendors and the cost of Ampyra inventory received up until regulatory approval. We account for our clinical study costs by estimating the patient cost per visit in each clinical trial and recognizing this cost as visits occur, beginning when the patient enrolls in the trial. This estimated cost includes payments to the trial site and patient-related costs, including laboratory costs related to the conduct of the trial. Cost per patient varies based on the type of clinical trial, the site of the clinical trial, and the length of the treatment period for each patient. As actual costs become known to us, we adjust our accrual; such changes in estimate may be a material change in our clinical study accrual, which could also materially affect our results of operations. With respect to previously established clinical study accruals in prior periods, for the three-month periods ended March 31, 2011 we did not make any significant adjustments to our clinical study costs. All research and development costs are expensed as incurred except when we are accounting for nonrefundable advance payments for goods or services to be used in future research and development activities. In these cases, these payments are capitalized at the time of payment and expensed ratably over the period the research and development activity is performed.

Income Taxes

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

We recorded a $117,000 provision for income taxes for the three-month period ended March 31, 2011. We did not record any tax provision or benefit for the three-month period ended March 31, 2010. We have provided a valuation allowance for the full amount of our gross deferred tax assets since realization of any future benefit from deductible temporary differences and net operating loss carryforwards cannot be sufficiently assured at March 31, 2011.

As of March 31, 2011, we had available federal net operating loss carry-forwards of approximately $273.9 million and state net operating carry-forwards of approximately $251.6 million, which may be available to offset future taxable income, if any. The federal losses are expected to expire between 2019 and 2031 while the state losses are expected to expire between 2012 and 2031. We also have research and development tax credit carry-forwards of approximately $4.0 million for federal income tax reporting purposes which are available to reduce federal income taxes, if any, through 2019. Since our inception, we have incurred substantial losses and may incur substantial and recurring losses in future periods. The Internal Revenue Code of 1986, as amended, the Code, provides for a limitation of the annual use of net operating loss and research and development tax credit carry-forwards (following certain ownership changes, as defined by the Code) that could significantly limit our ability to utilize these carry-forwards. We have experienced various ownership changes, as defined by the Code, as a result of past financings. Accordingly, our ability to utilize the aforementioned carry- forwards may be limited.

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Additionally, because U.S. tax laws limit the time during which these carry-forwards may be applied against future taxes we may not be able to take full advantage of these attributes for federal income tax purposes.

Share-based Compensation

We account for stock options and restricted stock granted to employees and non-employees by recognizing the costs resulting from all share-based payment transactions in the financial statements at their fair values. We estimate the fair value of each option on the date of grant using the Black-Scholes closed-form option-pricing model based on assumptions for the expected term of the stock options, expected volatility of our common stock, prevailing interest rates, and an estimated forfeiture rate.

We have based our current assumptions on the following:

Assumption	Method of estimating
•Estimated expected term of options	•Historical term data
•Expected volatility	•Combination of historic volatility of our common stock since October 1, 2006 and the historic volatility of the stock of our peer companies
•Risk-free interest rate	•Yields of U.S. Treasury securities corresponding with the expected life of option grants
•Forfeiture rates	•Historical forfeiture data

Of these assumptions, the expected term of the option and expected volatility of our common stock are the most difficult to estimate since they are based on the exercise behavior of the employees and expected performance of our common stock. Increases in the term and the volatility of our common stock will generally cause an increase in compensation expense.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments consist of cash equivalents, short-term investments, grants receivable, convertible notes payable, accounts payable, and put/call liability. The estimated fair values of all of our financial instruments approximate their carrying amounts at March 31, 2011.

We have cash equivalents and short-term investments at March 31, 2011, which are exposed to the impact of interest rate changes and our interest income fluctuates as our interest rates change. Due to the short-term nature of our investments in money market funds and US Treasury bonds, the carrying value of our cash equivalents and short-term investments approximate their fair value at March 31, 2011. At March 31, 2011, we held $225.3 million in cash and cash equivalents and short-term investments which had an average interest rate of approximately 0.04%.

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

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act") we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the first quarter of 2011, the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer. Based on that evaluation, these officers have concluded that, as of March 31, 2011, our disclosure controls and procedures were effective to achieve their stated purpose.

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Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules, regulations, and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding disclosure.

Change in internal control over financial reporting

In connection with the evaluation required by Exchange Act Rule 13a-15(d), our management, including our chief executive officer and chief financial officer, concluded that there were no changes in our internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of controls

Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

In August 2007, the Company received a Paragraph IV Certification Notice from Apotex Inc. advising that it had submitted an ANDA to the FDA seeking marketing approval for generic versions of Zanaflex Capsules. In response to the filing of the ANDA, in October 2007, the Company filed a lawsuit against Apotex Corp. and Apotex Inc. (collectively, Apotex) in the U.S. District Court for the District of New Jersey asserting infringement of our U.S. Patent No. 6,455,557 relating to multiparticulate tizanidine compositions, including those sold by us as Zanaflex Capsules. The patent expires in 2021.

In November 2007, the defendants answered the Company's complaint, asserting patent invalidity and non-infringement and counterclaiming, seeking a declaratory judgment of patent invalidity and non-infringement. The Company denied those counterclaims. On July 2, 2010, the U.S. District Court held a Markman hearing to determine the interpretation of certain terms in the Company's Zanaflex Capsules patent that is at issue in this litigation. The Court ruled favorably on a number of those terms, and the case is proceeding. The Court initially set a trial date of April 25, 2011, but has moved the trial date to May 9, 2011.

Our timely filing of a lawsuit against Apotex in October 2007 triggered an automatic stay on FDA approval of the Apotex ANDA for 30 months. That stay expired in March 2010. Consequently, Apotex will be able to receive FDA approval of its ANDA, if Apotex is able otherwise to satisfy FDA's review requirements for ANDAs, at which time it could begin selling a generic tizanidine hydrochloride capsule in competition with Zanaflex Capsules and Zanaflex tablets, even if our patent litigation remains pending. If Apotex begins selling its product before it is successful in challenging the validity, infringement, or enforceability of our patent, Apotex would be selling at the risk of our ultimately prevailing on our patent infringement claims and its being held liable for damages for patent infringement.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, as updated by the information in this Item 1A, all of which could materially affect our business, financial condition or future results. The risks described or referred to herein are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Following is the restated text of an individual risk factor that was published in our 2010 Annual Report on Form 10-K. We have made modifications to this risk factor that may be material.

The pharmaceutical industry is subject to stringent regulation and failure to obtain regulatory approval will prevent commercialization of our product candidates and, if we do not comply with FDA regulations if we obtain regulatory approval, approved products could be withdrawn from the market.

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

issues, all of which may eliminate or reduce the drug's market potential. Additional adverse events that could impact commercial success, or even continued regulatory approval, might emerge with more extensive post-approval patient use. Post-market evaluation of a product could result in marketing restrictions or withdrawal from the market.

Of the large number of drugs in development, only a small percentage result in the submission of an NDA to the FDA and even fewer are approved for commercialization.

In order to conduct clinical trials to obtain FDA approval to commercialize any product candidate, an IND application must first be submitted to the FDA and must become effective before clinical trials may begin. Subsequently, an NDA must be submitted to the FDA, including the results of adequate and well-controlled clinical trials demonstrating,

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among other things, that the product candidate is safe and effective for use in humans for each target indication. In addition, the manufacturing facilities used to produce the products must comply with current good manufacturing practices, or cGMPs, and must pass a pre-approval FDA inspection. Extensive submissions of preclinical and clinical trial data are required to demonstrate the safety, efficacy, potency and purity for each intended use. The FDA may refuse to accept our regulatory submissions for filing if they are incomplete.

Clinical trials are subject to oversight by institutional review boards and the FDA to ensure compliance with the FDA's good clinical practice requirements, as well as other requirements for the protection of clinical trial participants. We depend, in part, on third-party laboratories and medical institutions to conduct preclinical studies and clinical trials for our products and other third-party organizations to perform data collection and analysis, all of which must maintain both good laboratory and good clinical practices required by regulators. If any such standards are not complied with in our clinical trials, the resulting data from the clinical trial may not be usable or we, an institutional review board or the FDA may suspend or terminate such trial, which would severely delay our development and possibly end the development of such product candidate.

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

We also are subject to periodic unannounced inspections by the FDA and other regulatory bodies related to other regulatory requirements that apply to marketed drugs manufactured or distributed by us. If we receive a notice of inspectional observations or deficiencies from FDA, we may be required to undertake corrective and preventive actions in order to address the FDA's concerns, which could be expensive and time-consuming to complete and could impose additional burdens and expenses on how we conduct the affected activities. For example, the FDA conducted an inspection of our adverse event reporting in February 2009 that resulted in a Form FDA 483 with five inspectional observations. The observations cited the failure to submit NDA field alert reports for Zanaflex Capsules in a timely manner, the failure to review adequately complaints concerning distributed product, the late submission of NDA annual reports, and inadequate written procedures for our quality control unit, NDA field alert reporting, and the training of our personnel. We have undertaken corrective and preventive actions in order to address the FDA's concerns cited in the Form FDA 483. However, the FDA might identify different or additional deficiencies in subsequent inspections. In addition, although Ampyra was approved by the FDA on January 22, 2010, the FDA has not inspected our third party suppliers' drug product manufacturing sites in connection with that approval. The process validation efforts and manufacturing process at these sites could be inspected at a later date and the FDA might find what it considers to be deficiencies in the manufacturing process or process validation efforts, which could negatively impact the availability of product supply.

We and our third party suppliers are generally required to maintain compliance with cGMPs and are subject to inspections by the FDA or comparable agencies in other jurisdictions to confirm such compliance. In addition, the FDA must approve any significant changes to our suppliers or manufacturing methods. If we or our third party suppliers cannot demonstrate ongoing cGMP compliance, we may be required to withdraw or recall product and interrupt commercial supply of our products. Any delay, interruption or other issues that arise in the manufacture, fill-finish, packaging, or storage of our products as a result of a failure of our facilities or the facilities or operations of our third party suppliers to pass any regulatory agency inspection could significantly impair our ability to develop and commercialize our products. Significant noncompliance could also result in the imposition of monetary penalties or other civil or criminal sanctions. Non-compliance could increase our costs, cause us to lose revenue, and damage our reputation.

Even if our suppliers or manufacturing methods are in compliance with applicable requirements, we may encounter problems with the manufacture of our products. To investigate and/or resolve these problems, we may be required to withdraw or recall product and interrupt commercial supply of our products. These events could increase our costs, cause us to lose revenue, and damage our reputation. We are required to submit field alert reports to the FDA if we learn of certain reported problems with our products, and we are required to investigate the causes of the reported problems. For example, in February 2011, we filed a field alert report with the FDA pertaining to two reports of empty Zanaflex Capsules that had been distributed to pharmacies and sold to patients. In March 2011, after investigation of the issue and discussion with the FDA, we implemented a Class II, Level II Recall of three lots of Zanaflex Capsules. The FDA agreed with our proposal to conduct a phased approach of recalling product from our wholesalers and then from our retailers in order to appropriately address the issue and to mitigate an out-of-stock situation. In addition, in April 2011, we filed a field alert with the FDA pertaining to two reports that empty Ampyra bottles had been distributed to a specialty pharmacy and sold to patients. We are currently investigating the cause of the reported problems and, depending on the results of the investigation and other factors, further action may be required.

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Item 5. Other Information

We are party to a License Agreement, dated February 3, 2003, with Cornell Research Foundation, Inc. On May 5, 2011, we delivered written notice to Cornell terminating the License Agreement. Pursuant to the License Agreement, the termination is effective 45 days after the notice.

Item 6. Exhibits

10.14*	Amended and Restated License Agreement, dated September 26, 2003, by and between the Registrant and Elan Corporation, plc.
10.41*	License Agreement, dated as of December 19, 2003, by and among the Registrant, Cambridge University Technical Services Limited, and King's College London.
10.59*	Development and Supplemental Agreement between Elan Pharma International Limited and the Registrant dated January 14, 2011.
10.60*	Amendment #1 to License Agreement among the Registrant, Cambridge Enterprise Limited (formerly Cambridge University Technical Services Limited), and Kings College London dated as of March 4, 2011.
31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
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32.1	Certification by the 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 by the 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.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Portions of this exhibit were redacted pursuant to a confidential treatment request filed with the Secretary of the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be "furnished" and not "filed."

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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.

Acorda Therapeutics, Inc.

Date: May 9, 2011	By:	/s/ Ron Cohen Ron Cohen, M.D. President, Chief Executive Officer and Director (Principal Executive Officer)
Date: May 9, 2011	By:	/s/ David Lawrence David Lawrence, M.B.A. Chief Financial Officer (Principal Financial and Accounting Officer)

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