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ACORDA THERAPEUTICS INC

FORM 8-K/A
(Amended Current report filing)

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

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): October 22, 2014

Acorda Therapeutics, Inc.
(Exact name of registrant as specified in its charter)

Delaware	000-50513	13-3831168
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

420 Saw Mill River Road, Ardsley, NY	10502
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

INTRODUCTORY NOTE

As previously disclosed in its Current Report on Form 8-K filed by Acorda Therapeutics, Inc. (“Acorda”) with the Securities and Exchange Commission on October 24, 2014 (the “Form 8-K”), on October 22, 2014, Acorda, a Delaware corporation, completed the merger (the “Merger”) of Five A Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Acorda (“Merger Sub”), with Civitas Therapeutics, Inc., a Delaware corporation (“Civitas”), in accordance with the Agreement and Plan of Merger, dated as of September 24, 2014 (the “Merger Agreement”), by and among Acorda, Merger Sub, Civitas and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the securityholder’s representative. Pursuant to the terms of the Merger Agreement, Merger Sub has merged with and into Civitas, which is the surviving corporation in the Merger and which is continuing as a wholly-owned subsidiary of Acorda under the Civitas name.

This Current Report on Form 8-K/A (the “Form 8-K/A”) amends the Form 8-K to include the financial statements of Civitas and the pro forma financial information required by Items 9.01(a) and 9.01(b) of Form 8-K, respectively, and to include the exhibits under Item 9.01(d) of this Form 8-K/A.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of Businesses Acquired.

The audited Financial Statements of Civitas as of and for each of the years ended December 31, 2013 and 2012, and for the period from June 17, 2009 (Inception) to December 31, 2013, are filed herewith as Exhibit 99.1 and are incorporated in this Item 9.01(a) by reference.

The unaudited Condensed Financial Statements of Civitas as of September 30, 2014 and December 31, 2013, for each of the nine-month periods ended September 30, 2014 and 2013, and for the period from June 17, 2009 (Inception) to September 30, 2014, are filed herewith as Exhibit 99.2 and are incorporated in this Item 9.01(a) by reference.

(b) Pro Forma Financial Information.

The Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2014 and Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2013 and the nine month period ended September 30, 2014 and explanatory notes are filed herewith as Exhibit 99.3 and are incorporated in this Item 9.01(b) by reference.

(d) Exhibits.

Exhibit Number	Description
23.1	Consent of Ernst & Young LLP – Independent Registered Public Accounting Firm of Civitas Therapeutics, Inc.
99.1	Audited Financial Statements of Civitas Therapeutics, Inc. as of and for each of the years ended December 31, 2013 and 2012 and for the period from June 17, 2009 (Inception) to December 31, 2013.
99.2	Unaudited Condensed Financial Statements of Civitas Therapeutics, Inc. as of September 30, 2014 and December 31, 2013, for the nine-month periods ended September 30, 2014 and 2013 and for the period from June 17, 2009 (Inception) to September 30, 2014.
99.3	Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2014 and Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2013 and the nine months ended September 30, 2014 and explanatory notes.

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 hereunto duly authorized.

	Acorda Therapeutics, Inc.
January 7, 2015	*By:* /s/ Michael Rogers
	Name: *Michael Rogers*
	Title: *Chief Financial Officer*

EXHIBIT INDEX

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Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 Nos. 333-196803, 333-164312 and 333-152826) of Acorda Therapeutics, Inc., and

(2) Registration Statement (Form S-8 Nos. 333-194375, 333-164626, 333-158085, 333-131846, 333-149726, 333-174785, 333-179906, and 333-187091) of Acorda Therapeutics, Inc.;

of our report dated May 12, 2014 (except Note 17(D), as to which the date is September 15, 2014) with respect to the financial statements of Civitas Therapeutics, Inc., included in this Current Report on Form 8-K/A of Acorda Therapeutics, Inc. filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

Boston, Massachusetts
January 7, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Civitas Therapeutics, Inc.

We have audited the accompanying balance sheets of Civitas Therapeutics, Inc., (a development stage enterprise) (the Company) as of December 31, 2012 and 2013, and the related statements of operations and comprehensive loss, redeemable convertible preferred stock and stockholders' (deficit) equity and cash flows for each of the years then ended and the period from June 17, 2009 (Inception) to December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Civitas Therapeutics, Inc. (a development stage enterprise) at December 31, 2012 and 2013, and the results of its operations and its cash flows for each of the years then ended and the period from June 17, 2009 (Inception) to December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts
May 12, 2014, except for Note 17(D)
as to which the date is September 15, 2014

CIVITAS THERAPEUTICS, INC.
(A development stage company)

Balance sheets
(In thousands, except share and per share data)

	December 31,	
	2012	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 13,539	$ 24,052
Prepaid expenses and other current assets	390	146
Deferred tax asset	13	—
Total current assets	13,942	24,198
Property and equipment, net	1,062	2,487
Restricted cash	1,012	1,012
Goodwill	550	550
Intangible assets, net	8,069	7,876
Total assets	$ 24,635	$ 36,123
Liabilities, redeemable convertible preferred stock and stockholders' (deficit) equity		
Current liabilities:		
Accounts payable	$ 944	$ 1,297
Accrued liabilities and other	214	2,046
Current portion of deferred rent	52	52
Total current liabilities	1,210	3,395
Deferred rent	104	52
Contingent consideration	15,294	20,549
Deferred tax liability	81	117
Convertible notes	9,043	—
Other long-term liabilities	—	750
Total liabilities	25,732	24,863
Commitments and contingencies (Note 10)		
Redeemable convertible preferred stock:		
Series A Preferred Stock, $0.001 par value; 28,529,412 shares authorized, issued and outstanding at December 31, 2012 and 2013; (aggregate liquidation preference of $34,229 at December 31, 2013)	31,733	34,069
Series B Preferred Stock, $0.001 par value; 7,270,000 and 28,825,492 shares authorized at December 31, 2012 and 2013, respectively; no shares issued and outstanding at December 31, 2012 and 28,825,492 shares issued and outstanding at December 31, 2013; (aggregate liquidation preference of $41,713 at December 31, 2013)	—	41,543
Stockholders' (deficit) equity:		
Common stock, $0.001 par value; 49,270,000 shares authorized at December 31, 2012 and 80,000,000 shares authorized at December 31, 2013; 1,134,469 and 1,556,289 shares issued at December 31, 2012 and 2013, respectively; 967,524 and 1,389,344 shares outstanding at December 31, 2012 and 2013, respectively	1	1
Deficit accumulated during the development stage	(32,831)	(64,353)
Treasury stock, at cost; 166,945 shares at December 31, 2012 and 2013	—	—
Total stockholders' (deficit) equity	(32,830)	(64,352)
Total liabilities, redeemable convertible preferred stock and stockholders' (deficit) equity	$ 24,635	$ 36,123

See accompanying notes.

CIVITAS THERAPEUTICS, INC.
(A development stage company)

Statements of operations and comprehensive loss
(In thousands, except share and per share data)

	Year ended December 31, 2012	Year ended December 31, 2013	Period from June 17, 2009 (Inception) to December 31, 2013
Service revenue	$ 535	$ 53	$ 1,043
Operating expenses:			
Research and development	9,272	15,526	31,270
General and administrative	2,538	4,812	9,759
Re-measurement of contingent consideration	4,998	5,255	14,476
Amortization of purchased intangible assets	224	193	644
Total operating expenses	17,032	25,786	56,149
Loss from operations	(16,497)	(25,733)	(55,106)
Other income (expense), net:			
Interest expense, net	(56)	(2,141)	(2,196)
Loss on extinguishment of convertible notes	—	(534)	(534)
Other	6	10	16
Other income (expense), net	(50)	(2,665)	(2,714)
Loss before provision for income taxes	(16,547)	(28,398)	(57,820)
Provision for income taxes	49	49	117
Net loss	$ (16,596)	$ (28,447)	$ (57,937)
Comprehensive loss	$ (16,596)	$ (28,447)	$ (57,937)
Reconciliation of net loss to net loss applicable to common stockholders:			
Net loss	$ (16,596)	$ (28,447)	$ (57,937)
Accretion and dividends on redeemable convertible preferred stock	(2,386)	(3,420)	(7,040)
Net loss attributable to common stockholders—basic and diluted	$ (18,982)	$ (31,867)	$ (64,977)
Net loss per share applicable to common stockholders—basic and diluted	$ (22.84)	$ (28.13)	$ (121.32)
Weighted-average number of common shares used in computing net loss per share applicable to common stockholders—basic and diluted	831,025	1,132,798	535,590

See accompanying notes.

CIVITAS THERAPEUTICS, INC.
(A development stage company)

Statements of redeemable convertible preferred stock and stockholders' (deficit) equity
(In thousands, except share data)

	Series A redeemable convertible preferred stock		Series B redeemable convertible preferred stock		Common stock		Additional	Deficit accumulated during the development	Treasury stock		
	Shares	Amount	Shares	Amount	Shares	Par Value	paid-in capital	stage	Shares	Amount	Total
Balance at Inception (June 17, 2009)	—	$ —	—	$ —	—	$ —	$ —	$ —	—	$ —	$ —
Issuance of restricted stock (2010)	—	—	—	—	—	—	2	—	—	—	2
Purchase of Company common stock (2010)	—	—	—	—	—	—	—	—	166,945	—	—
Issuance of Series A redeemable convertible preferred stock, net of issuance costs of $349—(2010)	11,764,706	11,415	—	—	—	—	—	—	—	—	—
Issuance of Series A preferred stock, net of issuance costs of $66—(2011)	16,764,706	16,698	—	—	—	—	—	—	—	—	—
Exercise of stock options (2011)	—	—	—	—	1,180	—	1	—	—	—	1
Vesting of restricted stock	—	—	—	—	712,424	1	(1)	—	—	—	—
Share-based compensation expense	—	—	—	—		—	107	—	—	—	107
Accretion and dividends on redeemable convertible preferred stock	—	1,234	—	—		—	(109)	(1,125)	—	—	(1,234)
Net loss	—	—	—	—				(12,894)	—	—	(12,894)
Balance at December 31, 2011	**28,529,412**	**$ 29,347**	**—**	**$ —**	**713,604**	**$ 1**	**$ —**	**$ (14,019)**	**166,945**	**$ —**	**$(14,018)**
Accretion and dividends on redeemable convertible preferred stock	—	2,386	—	—	—	—	(170)	(2,216)	—	—	(2,386)
Vesting of restricted common stock	—	—	—	—	253,920	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	—	—	170	—	—	—	170
Net loss	—	—	—	—	—	—	—	(16,596)	—	—	(16,596)
Balance at December 31, 2012	**28,529,412**	**$ 31,733**	**—**	**$ —**	**967,524**	**$ 1**	**$ —**	**$ (32,831)**	**166,945**	**$ —**	**$(32,830)**
Issuance of Series B redeemable convertible preferred stock, net of issuance costs of $185 (includes conversion of debt)	—	—	28,825,492	40,459	—	—	—	—	—	—	—
Accretion and dividends on redeemable convertible preferred stock	—	2,336	—	1,084	—	—	(345)	(3,075)	—	—	(3,420)
Vesting of restricted common stock	—	—	—	—	369,502	—	—	—	—	—	—
Share-based compensation expense	—	—	—	—	—	—	330	—	—	—	330
Exercise of stock options	—	—	—	—	52,318	—	15	—	—	—	15
Net loss	—	—	—	—	—	—	—	(28,447)	—	—	(28,447)
Balance at December 31, 2013	**28,529,412**	**$ 34,069**	**28,825,492**	**$ 41,543**	**1,389,344**	**$ 1**	**$ —**	**$ (64,353)**	**166,945**	**$ —**	**$(64,352)**

See accompanying notes.

CIVITAS THERAPEUTICS, INC.
(A development stage company)

Statements of cash flows
(In thousands)

	Year ended December 31, 2012	Year ended December 31, 2013	Period from June 17, 2009 (Inception) to December 31, 2013
Operating activities			
Net loss	$ (16,596)	$ (28,447)	$ (57,937)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	687	764	1,993
Share-based compensation expense	170	330	607
Re-measurement of contingent consideration	4,998	5,255	14,476
Non-cash interest expense	57	2,143	2,200
Loss on extinguishment of convertible notes	—	534	534
Gain on disposal of equipment	(6)	—	(6)
Deferred rent	(52)	(52)	24
Deferred taxes	49	49	117
Changes in operating assets and liabilities:			
Restricted cash	—	—	(1,012)
Prepaid expenses and other current assets	(348)	238	(146)
Accounts payable and accrued expenses	569	1,860	2,974
Net cash used in operating activities	(10,472)	(17,326)	(36,176)
Investing activities			
Proceeds from sale of property and equipment	—	6	6
Purchases of property and equipment	(366)	(1,671)	(2,854)
Net cash used in investing activities	(366)	(1,665)	(2,848)
Financing activities			
Proceeds from issuance of preferred stock, net	—	28,739	53,322
Proceeds from convertible notes, net	8,986	—	8,986
Proceeds from issuance of restricted stock	—	—	2
Proceeds from exercise of stock options	—	15	16
Proceeds from other material financing arrangements	—	750	750
Net cash provided by financing activities	8,986	29,504	63,076
Net (decrease) increase in cash and cash equivalents	(1,852)	10,513	24,052
Cash and cash equivalents at beginning of period	15,391	13,539	—
Cash and cash equivalents at end of period	$ 13,539	$ 24,052	$ 24,052
Supplemental disclosures of cash flow information			
Equipment additions included in accounts payable and accrued expenses	$ 43	$ 368	$ 368
Issuance of Series A Preferred Stock as consideration for acquisition	$ —	$ —	$ 3,530
Conversion of convertible notes for Series B Preferred Stock	$ —	$ 9,000	$ 9,000
Accretion and dividends on redeemable convertible preferred stock	$ 2,386	$ 3,420	$ 7,040

See accompanying notes

NOTES TO FINANCIAL STATEMENTS
(In thousands, except share and per share data)

1. Nature of business

Civitas Therapeutics, Inc. (the Company) was incorporated on June 17, 2009 as a Delaware corporation with operations based in Chelsea, Massachusetts. The Company is a clinical stage biopharmaceutical company dedicated to developing inhaled therapies using the ARCUS ® therapeutic technology. The first product candidate using the ARCUS ® technology, CVT-301, is focused on treating OFF episodes in patients with Parkinson's disease.

Liquidity

For the year ended December 31, 2013, the Company incurred a net loss of $28,447, and has a deficit accumulated during the development stage of $64,352 as of December 31, 2013. On September 3, 2013, the Company completed a Series B redeemable convertible preferred stock (Series B Preferred Stock) financing in which it issued 28,825,492 shares of Series B Preferred Stock at $1.41 per share, which included the conversion of outstanding convertible notes into 8,311,862 shares of Series B Preferred Stock, for net proceeds of $28,739.

The Company believes that its cash resources at December 31, 2013, together with the proceeds available from the closing of a Loan and Security Agreement in March 2014 (Note 17), will be sufficient to allow the Company to fund its current business plan and continue as a going concern through at least January 1, 2015. While the Company's current business plan does not require additional financing prior to January 1, 2015, if the Company is unable to meet its business plan, additional financing will be required to support its planned expenditures. There can be no assurances, however, that the business plan will be achieved or that additional resources, if necessary, will be available on terms acceptable to the Company, or at all. Thereafter, the Company will be required to obtain additional funding in order to continue to fund its operations and intends to pursue a public offering of its common stock to fund future operations. However, if the Company is unable to complete a sufficient public offering in a timely manner it would need to pursue other financing alternatives, such as private financing of debt or equity or collaboration agreements. There can be no assurances, however, that additional funding will be available on terms acceptable to the Company, or at all.

The Company is subject to a number of risks similar to other companies in the industry, including rapid technological change, uncertainty in regulatory approval of product candidates, uncertainty of market acceptance of products, competition from substitute products and larger companies, the need to obtain additional financing, interruptions at the Company's manufacturing facility, protection of proprietary technology, dependence on third parties and dependence on key individuals.

Since inception, the Company has devoted substantially all of its efforts to research and development, business planning, recruiting management and staff, and raising capital. The Company has not recognized any revenue from its planned principal operations and, as a result, is considered to be in the development stage.

2. Summary of significant accounting policies

Basis of presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted accounting principles as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB).

Use of estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from such estimates. The Company utilizes certain estimates in the determination of the fair value of its common stock, share-based compensation, valuation of goodwill, intangible assets, derivatives, and

contingent consideration and to record expenses relating to research and development contracts. These contract estimates, which are primarily related to the length of service and stage of each contract, are determined by the Company based on input from internal project management, as well as from third-party service providers.

Cash and cash equivalents

Cash equivalents include all highly liquid investments maturing within 90 days from the date of purchase.

Segment information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions on how to allocate resources and assess performance. The Company views its operations and manages its business in one operating segment. All material long-lived assets of the Company reside in the United States. All revenue recognized was earned in the United States.

Restricted cash

Restricted cash represents cash deposits held in connection with obligations under facility leases or other operating agreements. Amounts are reported as non-current unless restrictions are expected to be released in the next twelve months.

Concentrations of credit risk

Cash and cash equivalents are financial instruments that potentially subject the Company to concentrations of credit risk. At December 31, 2012 and 2013, substantially all of the Company's cash was deposited in accounts at one financial institution. The Company maintains its cash, which at times may exceed the federally insured limits, with a large financial institution and, accordingly, the Company believes such funds are subject to minimal credit risk. The Company has no significant off-balance sheet risks, such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

Fair value of financial instruments

The Company accounts for certain of its financial assets and liabilities and non-financial assets and non- financial liabilities at fair value. Accounting standards include disclosure requirements around fair values used for certain financial instruments and establish a fair value hierarchy. The three-tier hierarchy prioritizes valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1—Quoted unadjusted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all observable inputs and significant value-drivers are observable in active markets.
- Level 3—Model derived valuations in which one or more significant inputs or significant value-drivers are unobservable, including assumptions developed by the Company.

Property and equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. The estimated useful life of the Company's assets are periodically reviewed for reasonableness. Changes in useful lives are accounted for prospectively. Repairs and maintenance costs are expensed as incurred, whereas major improvements are capitalized as additions to property and equipment. The estimated useful lives of property and equipment are as follows:

	Estimated useful life (years)
Manufacturing equipment	3
Office and computer equipment	3 to 5
Furniture	5
Leasehold improvements	Shorter of useful life or remaining lease term

Construction in-process is stated at cost, which includes the cost of construction and other direct costs attributable to the recommissioning of the Company's large-scale equipment and manufacturing facility. No depreciation expense is made on construction-in-process until such time as the relevant assets are completed and put into use.

Business acquisitions

On December 27, 2010, the Company entered into the Asset Purchase and License Agreement (the Alkermes Agreement) with Alkermes, Inc. (Alkermes) in which the Company licensed or acquired from Alkermes certain pulmonary development programs and investigational new drug applications (INDs), underlying intellectual property and laboratory equipment associated with the pulmonary business of Alkermes. The Company's financial statements include the operations of this acquired business after the completion of the acquisition. The Company accounts for acquired businesses using the acquisition method of accounting. The acquisition method requires, among other things, that assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date, with limited exceptions, and that the fair value of acquired in-process research and development (IPR&D) be recorded on the balance sheet. Also, transaction costs are expensed as incurred. Any excess of the acquisition consideration over the assigned values of the net assets acquired is recorded as goodwill. Contingent consideration is included within the acquisition cost and is recognized at its fair value on the acquisition date. A liability resulting from contingent consideration is re- measured to fair value at each reporting date until the contingency is resolved and changes in fair value are recognized in earnings. The contingent consideration is based upon the fair value of future royalties on net product sales from products developed from licensed technology under the Alkermes Agreement.

Valuation of contingent purchase price consideration

Acquisitions may include contingent consideration payments based on the achievement of certain future development and financial performance measures. The Company estimates the fair value of the contingent consideration based on revenue projections and estimated probabilities of achievement. The Company believes that its estimates and assumptions are reasonable; however, there is significant judgment involved. The Company evaluates, on a routine, periodic basis, the estimated fair value of the contingent consideration and changes in estimated fair value, subsequent to the initial fair value estimate at the time of the acquisition, are reflected in income or expense in the statements of operations. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and forecasted levels of sales and changes in probability assumptions with respect to the likelihood of achieving the measures. Any changes in the estimated fair value of contingent consideration may have a material impact on the Company's operating results.

Goodwill

Goodwill represents the excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed. The Company operates in a single reporting unit. The annual test for goodwill impairment is a multiple step process. The first step is a qualitative assessment of operational and financial information to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If so, a two-step process begins with a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. If this step indicates impairment, then in the second step, the loss is measured as the excess of recorded goodwill over its implied fair value. Implied fair value is the excess of the fair value of the reporting unit over the fair value of all identified assets and liabilities. The Company tests goodwill for impairment annually on October 1st, or when events or circumstances indicate that the fair value may be below the carrying value of the asset. The Company has not recorded any impairments during the years ended December 31, 2012 or 2013 or the period from June 17, 2009 (Inception) to December 31, 2013.

Intangible assets

Intangible assets with finite useful lives consist primarily of purchased developed technology and are amortized on a straight-line basis over their estimated useful lives, which range from 18 to 19 years. The estimated useful lives associated with finite-lived intangible assets are consistent with the estimated lives of the associated patents and may be modified when circumstances warrant. Changes in useful life are accounted for prospectively.

Intangible assets with finite lives are reviewed for impairment when events or circumstances indicate that the carrying value of an asset may not be recoverable. If the asset becomes impaired, the carrying amount of the related intangible asset is written down to its fair value and an impairment charge would be recognized in the period in which estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. The Company has not recorded any impairments during the years ending December 31, 2012 or 2013 or the period from June 17, 2009 (Inception) to December 31, 2013.

The fair value of IPR&D acquired through a business combination is capitalized as an indefinite-lived intangible asset until the completion or abandonment of the related research and development activities. IPR&D is not amortized, but is tested for impairment annually on October 1st, or when events or circumstances indicate that the fair value may be below the carrying value of the asset. If and when development is complete, which generally occurs when regulatory approval to market a product is obtained, the associated assets would become finite-lived and would then be amortized over their estimated useful lives.

Research and development costs

Costs incurred in the research and development of the Company’s product candidates are expensed as incurred. Research and development expenses consist of costs incurred in performing research and development activities and include salaries and benefits, preclinical and clinical activities, manufacturing development, scale- up and research-related facility and overhead costs, laboratory supplies and equipment and other contract services. Payments made in advance of services incurred are recorded as prepaid expense.

Revenue

The Company has primarily generated service revenue from research and development grant programs and contracted manufacturing activities.

The Company recognizes revenue in accordance with ASC 605, *Revenue Recognition* . Accordingly, revenue is recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists
- Delivery has occurred or services have been rendered
- The seller’s price to the buyer is fixed or determinable
- Collectability is reasonably assured

Amounts received prior to satisfying the revenue recognition criteria are recorded as deferred revenue in the Company’s balance sheets. Amounts expected to be recognized as revenue within the twelve months following the balance sheet date are classified as deferred revenue, current portion. Amounts not expected to be recognized as revenue within the twelve months following the balance sheet date are classified as deferred revenue, net of current portion.

Service revenue

The Company generates service revenue through agreements with a non-profit entity, which is recognized using the proportional performance method. The Company also has performed contract manufacturing services for pharmaceutical and biotechnology companies and recognizes revenue under such arrangements upon completion of performance.

Funded research and development

The Company evaluates grants received for the performance of research and development services to assess whether the amounts received should be accounted for as a financing arrangement. The Company considers whether it is obligated to repay any funds received from such parties regardless of the ultimate success of the research and development. In circumstances in which the financial risk has not been transferred to the funding party, the Company accounts for such funds received as a liability.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's comprehensive loss equals reported net loss for all periods presented.

Share-based compensation

The Company records share-based compensation for options granted to employees based on the grant date fair value of awards issued, and the expense is recorded on a straight-line basis over the requisite service period. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options. The determination of the fair value of stock options on the date of grant using an option-pricing model is affected by the Company's common stock price, as well as a number of other subjective variables.

The Company accounts for share-based compensation arrangements with non-employees based upon the fair value of the consideration received or the equity instruments issued, whichever is more reliably measurable. The measurement date for non-employee awards is generally the date performance of services required from the non-employee is complete, resulting in periodic adjustments to share-based compensation during the vesting period for changes in the fair value of the awards. Share-based compensation costs for non-employee service awards are recognized as services are provided, which is generally the vesting period, on a straight-line basis. The unvested portion of the awards are subject to re-measurement over the vesting period.

Net loss per share

Basic net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares and dilutive common stock equivalents outstanding for the period, determined using the treasury stock method and the if-converted method, for convertible securities, if inclusion of these is dilutive.

Income taxes

The Company provides deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the Company's financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. A valuation allowance is provided to reduce the deferred tax assets to the amount that will more likely than not be realized.

The Company applies ASC 740, *Income Taxes,* in accounting for uncertainty in income taxes. The Company does not have any material uncertain tax positions for which reserves would be required. The Company will recognize interest and penalties related to uncertain tax positions, if any, in income tax expense.

3. Restricted cash

At December 31, 2012 and 2013, the Company had $1,000 of restricted cash in the form of a letter of credit on behalf of Alkermes. The bank requires that the Company maintain this deposit as collateral for the letter of credit, which serves as the security deposit on the lease of the Company's facility in Chelsea, Massachusetts. The remaining amounts were deposits for various operating activity agreements for corporate matters.

4. Fair value of financial instruments

For financial instruments, including cash, restricted cash, accounts payable and accrued expenses, the carrying amount approximates fair value due to their short-term nature.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. During the twelve months ended December 31, 2012 and 2013, there was no reclassification in financial assets or liabilities between Level 1, 2 or 3 categories.

The following tables set forth by level, within the fair value hierarchy, the Company's assets and liabilities as of December 31, 2012 and 2013 that are measured at fair value on a recurring basis:

	Balance at December 31, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 13,539	$ 13,539	$ —	$ —
	$ 13,539	$ 13,539	$ —	$ —
Liabilities:				
Acquisition—related contingent consideration	$ 15,294	$ —	$ —	$ 15,294
Convertible notes derivative liability	1,668	—	—	1,668
	$ 16,962	$ —	$ —	$ 16,962

	Balance at December 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 24,052	$ 24,052	$ —	$ —
	$ 24,052	$ 24,052	$ —	$ —
Liabilities:				
Acquisition—related contingent consideration	$ 20,549	$ —	$ —	$ 20,549
	$ 20,549	$ —	$ —	$ 20,549

The valuation technique used to measure the fair value of the contingent consideration is based on a probability-weighted discounted cash flow model. This method estimates the fair value of the liability based on the present value of its future economic costs and is predicated upon estimates of future net sales of the Company's products that would result in royalties owed to Alkermes (Note 12). Significant assumptions incorporated within the estimates of future net sales include the estimated usage of the Company's products, the estimated selling prices of the Company's products, and the discount rate to be applied over the royalty periods.

The Company entered into a convertible note financing (Note 11) that was deemed to include an embedded derivative related to the conversion option within the convertible notes. The embedded derivative was required to be bifurcated from the host instrument because the derivative was not clearly and closely related to the host instrument. The Company determined the fair value of its embedded derivative on the date of issuance and at the end of each reporting period. The Company classified the embedded derivative with its convertible notes within the balance sheet and changes in the fair market value are included in interest expense. The valuation technique used to measure the convertible notes derivative liability was a probability-weighted discounted cash flow model predicated upon the estimated probability of the Company completing its next Qualified Financing, as defined in the Note Purchase Agreement for the convertible notes, subsequent to the issuance of the convertible notes.

Each of these liabilities will be re-measured at each reporting period until settlement.

Level 3 changes:

The following is a reconciliation of the beginning and ending balances for the contingent consideration measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the periods ending December 31, 2012 and 2013:

Balances at December 31, 2011	$10,296
Change in fair value of contingent consideration	4,998
Balances at December 31, 2012	15,294
Change in fair value of contingent consideration	5,255
Balances at December 31, 2013	$20,549

The following is a reconciliation of the beginning and ending balances for the convertible notes derivative liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the periods ending December 31, 2012 and 2013:

Balances at December 31, 2011	$ —
Issuance of convertible notes with embedded derivative at fair value of the derivative liability	1,630
Change in fair value of derivative liability	38
Balances at December 31, 2012	1,668
Change in fair value of derivative liability	682
Settlement of the derivative liability	(2,350)
Balances at December 31, 2013	$ —

During the year ended December 31, 2013, the Company did not change any of the valuation techniques used to measure its liabilities at fair value.

5. Property and equipment

Property and equipment consists of the following as of December 31, 2012 and 2013:

	December 31,	
	2012	2013
Manufacturing equipment	$ 948	$ 1,177
Office and computer equipment	138	242
Furniture	25	26
Leasehold improvements	729	734
Construction in-process	—	1,657
Total property and equipment	1,840	3,836
Accumulated depreciation	(778)	(1,349)
Property and equipment, net	$1,062	$ 2,487

Depreciation expense was $463, $571 and $1,349 for the years ended December 31, 2012 and 2013 and for the period from June 17, 2009 (Inception) to December 31, 2013, respectively.

6. Intangible assets and goodwill

Intangible assets related to acquired developed and in-process technologies reflect the estimated fair value of the rights acquired through the Alkermes Agreement (Note 12). Acquired developed technologies are finite- lived intangible assets and are being amortized over their estimated lives ranging from 18 to 19 years.

The excess of the total acquisition consideration over the fair value amounts assigned to the assets acquired and the liabilities assumed represents the goodwill amount resulting from the acquisition. There have been no changes in the carrying amount of goodwill since the acquisition.

The gross carrying amounts and net book values of our intangible assets were as follows:

	Cost	Accumulated amortization	Net book value
As of December 31, 2012			
ARCUS Platform—Device IO	$2,430	$ (272)	$ 2,158
ARCUS platform—Formulation IP	1,160	(179)	981
CVT—301 Project (indefinite-lived)	4,930	—	4,930
Total	$8,520	$ (451)	$ 8,069
As of December 31, 2013			
ARCUS Platform—Device IO	$2,430	$ (407)	$ 2,023
ARCUS platform—Formulation IP	1,160	(237)	923
CVT—301 Project (indefinite-lived)	4,930	—	4,930
Total	$8,520	$ (644)	$ 7,876

Amortization was $224, $193 and $644 for the years ended December 31, 2012 and 2013 and for the period from June 17, 2009 (Inception) to December 31, 2013, respectively.

As of December 31, 2013, future estimated amortization expense is as follows:

	Future amortization expense
Year ending December 31,	
2014	$ 193
2015	193
2016	193
2017	193
2018	193
2019 and thereafter	1,981
	$ 2,946

7. Accrued expenses

The components of accrued expenses as of December 31, 2012 and 2013 are as follows:

	December 31,	
	2012	2013
Research and development expenses	$—	$1,203
Employee vacation	97	177
Severance	—	334
Bonus	—	148
Other	117	184
Total	$214	$2,046

On June 17, 2013, the Company amended and restated the employment agreement with Mr. Glenn Batchelder, former Chief Executive Officer (CEO), to include several additions to Mr. Batchelder's compensation package. As part of these additions, Mr. Batchelder earned a special bonus calculated as $54 upon the occurrence of the Series B Preferred Stock financing on September 3, 2013 (Note 8) and a retention bonus of $94 for remaining employed with the Company until the occurrence of the financing. In addition, the restated agreement added termination benefits, including nine months continued salary after termination and reimbursement of certain of Mr. Batchelder's costs for eighteen months after termination. In the fourth quarter of 2013, the Company deemed it probable that the termination costs would be paid to Mr. Batchelder. All compensation, bonus, and severance costs associated with the restated employment agreement were expensed and accrued at December 31, 2013.

8. Stockholders' (deficit) equity

Common stock

Each share of common stock is entitled to one vote. The holders of record of the shares of common stock, exclusively and as a separate class, shall be entitled to elect one director of the Company. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding. On December 22, 2010, the Company executed a stock split of 3.526945 shares issued for every 1 common share issued (with no fractional shares issued). All share numbers listed as issued prior to this date have been adjusted to reflect the number of shares issued post the stock split.

The Company executed a one-for-4.237 reverse stock split of its issued and outstanding common stock on September 12, 2014. All share and per share amounts related to issued and outstanding common stock and outstanding options exercisable for common stock included in these financial statements and notes to the these financial statements have been retroactively adjusted for all periods presented to reflect the reverse stock split, including reclassifying an amount equal to the reduction in par value of common stock to deficit accumulated during the development stage.

Restricted common stock

At various dates in 2009 and 2010, the Company issued an aggregate of 1,746,958 shares of restricted common stock to its employee and non-employee founders at a fair value of $0.04 per share, which represented the fair value of the Company's common stock as determined by management and the Board of Directors on the dates of issuance.

These awards of restricted common stock were not made under the 2010 Stock Incentive Plan, but are subject to transfer restrictions and are subject to repurchase by the Company and, therefore, not accounted for as outstanding until they vest. On December 22, 2010, the Company repurchased 166,945 non-vested shares from one of its founders at cost. These shares are classified as treasury stock as of December 31, 2012 and 2013.

The following is a summary of restricted common stock activity outside of the 2010 Stock Incentive Plan:

	Number of shares	Weighted-average grant date fair value
Non-vested shares at December 31, 2012	613,669	$ 0.04
Issued	—	—
Vested	(369,502)	$ 0.04
Forfeited	—	—
Non-vested shares at December 31, 2013	244,167	$ 0.04

The total fair value of shares vested was $357, $609 and $1,337 for the years ended December 31, 2012 and 2013 and for the period from June 17, 2009 (Inception) to December 31, 2013, respectively.

Redeemable convertible preferred stock

Redeemable convertible preferred stock consisted of the following as of December 31, 2012 and 2013:

	Issuance Date	Preferred shares issued and outstanding	Carrying value December 31, 2012	Carrying value December 31, 2013
Series A	December 27, 2010	11,764,706	$ 13,485	$ 14,470
	April 15, 2011	2,500,000	2,812	3,019
	December 20, 2011	14,264,706	15,436	16,580
Series B	September 3, 2013	28,825,492	—	41,543
Total		57,354,904	$ 31,733	$ 75,612

On December 27, 2010, the Company completed a Series A redeemable convertible preferred stock (Series A Preferred Stock) financing and issued 11,764,706 shares of Series A Preferred Stock at $1 per share, for gross proceeds of approximately $11,764.

On April 15, 2011, the Company completed a second closing of the Series A Preferred Stock financing and issued 2,500,000 shares of Series A Preferred Stock at $1 per share, for gross proceeds of approximately $2,500 from a new investor.

The Series A Preferred Stock purchase investors also agreed to purchase up to an additional 14,264,706 shares of Series A Preferred Stock in one subsequent closing, at a fixed price of $1 per share, subject to the Company's attainment of certain milestones. The Company concluded that the forward purchase contract was an embedded feature that was not legally detachable and did not require separate accounting treatment. The milestones were met and the final tranche was closed on December 20, 2011 where the then current investors purchased 14,264,706 shares of Series A Preferred Stock at $1 per share, for gross proceeds of approximately $14,264.

On September 3, 2013, the Company completed a Series B Preferred Stock financing and issued 28,825,492 shares of Series B Preferred Stock at $1.41 per share. Of the 28,825,492 shares issued, 20,513,630 shares were sold for proceeds of $28,924, while 8,311,862 shares were issued at a value of $11,720 as a result of the conversion of the convertible notes plus accrued interest (Note 11).

The Company assessed all terms and features of the Preferred Stock in order to identify any potential embedded features that would require bifurcation or any beneficial conversion features. As part of this analysis, the Company assessed the economic characteristics and risks of its Preferred Stock, including conversion and liquidation features, as well as dividend and voting rights. Based on the Company's determination that its Preferred Stock is an "equity host," the Company determined that all features of the Preferred Stock are most clearly and closely associated with an equity host, and, although the Preferred Stock includes conversion features, such conversion features do not require bifurcation as a derivative liability.

The Series A Preferred Stock and Series B Preferred Stock, herein referred to as Preferred Stock, have the following rights and preferences:

Voting

Preferred stockholders are entitled to a number of votes equal to the number of whole shares of common stock into which the Preferred Stock is convertible on the date of record. Holders of the Preferred Stock shall vote together with the holders of common stock as a single class, except for the election of the Board of Directors. For such election, the preferred stockholders shall vote exclusively as a separate class to elect six directors. Any remaining director(s) of the Company shall be elected by the holders of common stock and the preferred stockholders voting as a single class.

The approval of 68% of the outstanding shares of Preferred Stock is required for certain events that may impact the rights and preferences of the preferred stock, including to liquidate, wind up or dissolve the business, increase or decrease the number of shares of preferred or common stock to be issued, amend any provision of the certificate of incorporation, purchase or redeem or pay or declare dividends on shares of capital stock, authorize any debt security exceeding $1,000 or adopt or amend equity-based compensation plans.

Dividends

Dividends accrue on Preferred Stock from and after the date of issuance at a rate of $0.08 and $0.1128 per annum per share of Series A and Series B Stock, respectively, whether or not declared by the Company's Board of Directors and are cumulative. Such dividends shall be payable only when, as, and if declared by the Company's Board of Directors. For the period from June 17, 2009 (Inception) to December 31, 2013, no dividends have been declared or paid.

Liquidation preference

In the event of any liquidation, dissolution, or winding up of the affairs of the Company, the holders of the then-outstanding Preferred Stock shall receive distribution, before any payment shall be made to the holders of common stock, the greater of (1) Original Issue Price, which is $1 per share for Series A Preferred Stock and $1.41 per share for Series B Preferred Stock, plus any accrued, but unpaid, dividends whether or not declared, or (2) such amount per share of Preferred Stock payable as if converted into common stock. After the payment of any preferential amount to the preferred stockholders, any remaining assets of the Company shall be distributed ratably among the holders of common stock. If the assets to be

distributed to the holders of the Preferred Stock are insufficient to permit the payment to such holders of their full preferential amount, the assets legally available for distribution shall be distributed first to the Series B Preferred Stock holders and then the remaining funds shall be distributed to the Series A Preferred Stock holders.

Conversion

Each share of Preferred Stock, at the option of the holder, is convertible into a number of fully paid shares of common stock as determined by dividing the initial Conversion Price, which is $1 per share for Series A Preferred Stock and $1.41 per share for Series B Preferred Stock, by the conversion price in effect at the time of conversion. The initial Conversion Price of the Preferred Stock is subject to adjustment upon the occurrence of certain events, such as stock splits and stock dividends. Conversion is mandatory upon the closing of a firm-commitment underwritten public offering in which the public offering price equals or exceeds $4.23 per share (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the common stock) and the gross proceeds are not less than $50,000 or at the date and time or the occurrence of an event specified by vote or written consent of the holders of at least 68% of the then-outstanding shares of Preferred Stock.

Redemption

Upon delivery of notice in writing on or after September 3, 2017 by the holders of at least 68% of the then outstanding Preferred Stock voting together as a single class and not as separate series, and on an as-converted basis, requesting all shares of Preferred Stock be redeemed, the Company will be required to redeem each share of Preferred Stock. The redemption price shall be equal to the applicable Original Issue Price per share plus accrued but unpaid dividends on such shares, whether or not declared or such amount per share of Preferred Stock payable as if converted into common stock.

Stock incentive plan

The Company's 2010 Stock Incentive Plan (2010 Plan) provides for the issuance of a total of 2,159,539 shares of common stock in the form of incentive stock options, non-qualified stock options, restricted stock, restricted stock units and other stock-based awards to directors, officers, employees, advisors and consultants of the Company as of December 31, 2013.

Generally, stock options are granted at not less than fair value as determined by the Board of Directors, expire no later than ten years from the date of grant, and vest over various periods not exceeding four years. At December 31, 2013, 60,826 shares were available for future grant under the 2010 Plan.

The following is a summary of activity under the 2010 Plan:

	Number of shares	Weighted-average exercise price per share	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at December 31, 2012	617,053	$ 1.04	9.1	$ 300
Granted	1,480,479	$ 1.69		
Exercised	(52,318)	$ 0.28		
Cancelled or forfeited	—	—		
Outstanding at December 31, 2013	2,045,214	$ 1.55	9.3	$ 1,027
Exercisable at December 31, 2013	381,201	$ 1.22	8.5	$ 310
Vested or expected to vest at December 31, 2013	1,872,453	$ 1.53	9.3	$ 975

The fair values of options granted to employees and non-employees in 2012 and 2013 were calculated using the following estimated weighted-average assumptions:

	December 31, 2012	December 31, 2013
Risk-free interest rate	1.07 %	1.79 %
Expected dividend yield	— %	— %
Expected volatility	65 %	69 %
Expected term (years)	6.4	6.4

The weighted average grant date fair value of options granted during the years ended December 31, 2012 and 2013 and for the period from June 17, 2009 (Inception) to December 31, 2013 was $0.84, $1.08 and $0.94 per share, respectively.

The expected term utilized in the Black-Scholes option-pricing model for employees was determined according to the simplified method which reflects the average of the vesting tranche dates and the contractual term. For non-employee options the contractual term was utilized for expected term. As there has been no public market for the Company's common stock, the Company has determined the volatility for options granted based on an analysis of reported data for a representative group of companies that issued options with substantially similar terms. The risk-free rate is determined by reference to U.S. Treasury zero-coupon issues with remaining maturities consistent with the expected term of the options. The Company has not paid, and does not anticipate paying, cash dividends on shares of common stock; therefore, the expected dividend yield is assumed to be zero. The Company estimates forfeitures at the time of grant and revises the estimates in subsequent periods if actual forfeitures differ from the estimates.

The following table summarizes the share-based compensation expense for stock options and restricted common stock granted to employees and non-employees that was recorded in the Company's statements of operations for the years ended December 31, 2012 and 2013 and for the period from June 17, 2009 (Inception) to December 31, 2013:

	December 31, 2012	December 31, 2013	Period from June 17, 2009 (Inception) to December 31, 2013
Research and development	$127	$167	$ 389
General and administrative	43	163	218
Total share-based compensation expense	$170	$330	$ 607

As of December 31, 2013, there was $1,623 of total unrecognized compensation cost related to non- vested equity awards. Total unrecognized compensation cost will be adjusted for future changes in forfeitures, if any. The Company expects to recognize that cost over a remaining weighted-average period of 3.0 years.

The total intrinsic value of options exercised during the year ended December 31, 2013 and the period from June 17, 2009 (Inception) to December 31, 2013 was $75 and $76, respectively. No options were exercised during the year ended December 31, 2012. The intrinsic value is calculated as the difference between the fair value and the exercise price of the shares at the date of exercise.

Shares reserved for future issuance

The Company has reserved the following shares of common stock, for the potential conversion of outstanding Preferred Stock, vesting of restricted common stock, exercise of warrants to purchase redeemable convertible preferred stock and the exercise of stock options as of December 31, 2013:

Conversion of Series A Preferred Stock	6,733,397
Conversion of Series B Preferred Stock	6,803,274
Vesting of restricted stock	244,167
Options to purchase common stock	2,106,040
Total	15,886,878

9. Income taxes

The Company recorded a provision for income taxes of $49, $49 and $117 for the years ended December 31, 2012 and 2013 and the period from June 17, 2009 (Inception) to December 31, 2013, respectively. The income tax provision is comprised of the following:

	December 31,		Period from June 17, 2009 (Inception) to December 31,
	2012	2013	2013
Current provision			
Federal	$—	$—	$ —
State	—	—	—
Total current	—	—	—
Deferred provision			
Federal	39	39	94
State	10	10	23
Total deferred	49	49	117
Total provision	$ 49	$ 49	$ 117

The deferred tax provision for 2012 and 2013 is the result of amortization for tax purposes of indefinite-lived intangible assets and tax-deductible goodwill for which there is no corresponding book deduction. This results in a deferred tax liability, the reversal of which cannot be forecasted and therefore cannot be used as a source of income to reduce the Company's valuation allowance on deferred tax assets.

As of December 31, 2012 and 2013, the Company had federal net operating loss carryforwards of approximately $18,718 and $38,705, respectively, and state net operating loss carryforwards of approximately $18,423 and $38,185, respectively, which may be available to offset future taxable income and which expire at various dates through 2033. As of December 31, 2012 and 2013, the Company also had federal and state research and development tax credit carryforwards of approximately $269 and $1,165, respectively. The federal and state research and development tax credits begin to expire in 2026. The net operating losses and research and development credits are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. These tax attributes may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant shareholders over a three-year period in excess of 50%, as defined under Sections 382 and 383 of the Internal Revenue Code, respectively, as well as similar state provisions. This could limit the amount of tax attributes that can be utilized annually to offset future taxable income or tax liabilities. The amount of the annual limitation is determined based on the value of the company immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years. The Company has not, as yet, conducted a study to determine if any such changes have occurred that could limit its ability to use the net operating losses and tax credit carryforwards.

The significant components of the Company's deferred tax assets and deferred tax liabilities consist of the following at December 31, 2012 and 2013:

	2012	2013
Net operating loss carryforwards	$ 7,337	$ 15,176
Tax credits	269	1,165
Contingent consideration	3,622	5,651
Embedded derivative	640	—
Depreciation	110	199
Intangibles	132	175
Other temporary differences	301	301
Gross deferred tax assets	12,411	22,667
Valuation allowance	(11,771)	(22,667)
Net deferred tax assets	$ 640	$ —
Deferred tax liabilities		
Convertible notes	$ (640)	$ —
Goodwill	(7)	(12)
IPR&D asset	(61)	(105)
Total gross deferred tax liabilities	(708)	(117)
Net deferred tax liabilities	$ (68)	$ (117)

ASC 740 requires a valuation allowance to reduce the deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, the Company has recorded a valuation allowance of $11,771 and $22,667 at December 31, 2012 and 2013, respectively, because the Company has determined that it is more likely than not that these assets will not be fully realized. The increase in the overall valuation allowance relates primarily to U.S. operating losses for which the Company currently provides no tax benefit.

As of December 31, 2012 and 2013, the Company had a net deferred tax liability of $68 and $117, respectively. This net deferred tax liability is the result of the difference in accounting for IPR&D assets and goodwill which are amortizable over 15 years for tax purposes, but not amortized for book purposes. These deferred tax liabilities cannot be used as sources of income to reduce the valuation allowance against the Company's deferred tax assets since they relate to indefinite-lived assets and reversal of these liabilities cannot be anticipated.

A reconciliation of income tax expense computed at the statutory federal income tax rate to income taxes as reflected in the financial statements is as follows:

	December 31, 2012	December 31, 2013
Federal income tax expense at statutory rate	34.0 %	34.0 %
State income tax, net of federal benefit	5.2 %	4.7 %
Permanent differences	(0.5)%	(3.6)%
Research and development credit	0.6 %	3.1 %
Change in valuation allowance	(39.6)%	(38.4)%
Effective income tax rate	(0.3)%	(0.2)%

On June 17, 2009 (Inception), the Company adopted the provision for uncertain tax positions under ASC 740-10 . The Company had no uncertain positions or unrecorded liabilities for uncertain tax positions upon adoption and the adoption did not have an impact on the Company's balance sheet or retained earnings. As of December 31, 2012 and 2013, the Company has no recorded liabilities for uncertain tax positions.

Interest and penalty charges, if any, related to uncertain tax positions would be classified as income tax expense in the accompanying consolidated statements of operations. As of December 31, 2012 and 2013, the Company had no accrued interest or penalties related to uncertain tax positions.

The statute of limitations for assessment by the Internal Revenue Service (IRS) and state tax authorities remains open for all tax years. The Company files income tax returns in the United States and Massachusetts. There are currently no federal or state audits in progress.

10. Commitments and contingencies

Leases

In January 2011, the Company entered into a sublease for its facility in Chelsea, Massachusetts. The sublease is with Alkermes, a related party (Note 12). The sublease term ends in December 2015. The sublease includes a free rent period, and the rent expense is being recognized on a straight-line basis over the sublease term. The sublease agreement provides for two five-year extensions upon the completion of the sublease term. For each extension period, the economic terms of the sublease will be determined by a process set forth in the sublease, and we will be required to provide a letter of credit in an amount equal to the full five-year lease obligation for each extension period.

As of December 31, 2013, the future minimum lease payments under the non-cancelable operating lease are as follows:

Year ending December 31,	
2014	$ 722
2015	722
Total	$1,444

Rent expense for the years ended December 31, 2012 and 2013 and for the period from June 17, 2009 (Inception) to December 31, 2013, was $670, $670 and $2,017, respectively.

License agreement

The Company has a license agreement to a portfolio of patents from the Massachusetts Institute of Technology (MIT). Pursuant to the terms of the license agreement, the Company agreed to make minimum annual payments to the university. The minimum annual payments are $100 for each year starting upon the assignment of the license in 2010 and ending when the patents expire in 2017. The Company is obligated to pay royalties on the commercial sale of such licensed product through the end of 2017 or when the patents expire. The Company has included license expense as a component of research and development expense in the amounts of $100, $100 and $300 for the years ended December 31, 2012 and 2013 and for the period from June 17, 2009 (Inception) to December 31, 2013, respectively.

Contingencies

The Company has certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues a reserve for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. There were no contingent liabilities accrued as of December 31, 2012 or 2013.

11. Convertible notes

On December 19, 2012, the Company issued convertible notes (the Notes) to the Preferred Stock investors for $9,000. These Notes held a 6% annual interest rate and were due and payable by the Company on demand by election of 66% of the holders of the Notes (the Majority Note Holders) at any time after December 18, 2013, unless converted to shares of the Company's stock prior to such date. Under the terms of the Notes, the principal and unpaid accrued interest of the Notes would automatically convert upon the occurrence of the Company's next Qualified Financing, one that involves at least one bona fide venture capital or institutional investor who is not a stockholder of the Company and results in at least $10,000 in aggregate gross proceeds. Upon written election of the Majority Note Holders, a financing not meeting such criteria would also qualify as a Qualified Financing.

On September 3, 2013, the Company completed the Series B Preferred Stock financing, which constituted a Qualified Financing, and the principal and unpaid accrued interest of the Notes automatically converted to shares of Series B Preferred Stock at a conversion price equal to 80% of the price paid per share in the financing.

The Company concluded that the feature which provided for the settlement of the Notes in shares of the Company's stock was an embedded derivative as it was not clearly and closely related to the debt host, which was the Notes. As a result, the Company bifurcated the embedded derivative and calculated its fair value at issuance to be $1,630. The value of the derivative and accrued interest were included in the total value of the Notes on the balance sheet at December 31, 2012. For the years ended December 31, 2012 and 2013, and for the period from June 17, 2009 (Inception) to December 31, 2013, the Company recorded a change in the fair value of the embedded derivative of $38, $682, and $720, respectively. These changes have been recorded as a component of interest expense in each respective period.

The conversion of the Notes into Series B Preferred Stock was treated as an extinguishment of the Notes and embedded derivative. The Notes and embedded derivative were removed at their carrying amounts, after a final adjustment to fair value on September 3, 2013. The shares of Series B Preferred Stock issued upon conversion of the Notes were recorded at fair value. The difference between the carrying amount of the Notes and embedded derivative and the fair value of Series B Preferred Stock issued of $534 was recorded as a loss on the extinguishment of the Notes.

12. Alkermes agreement

On December 27, 2010, the Company entered into the Alkermes Agreement, in which the Company licensed or acquired from Alkermes certain pulmonary development programs and INDs, underlying intellectual property and laboratory equipment associated with the pulmonary business of Alkermes. The assets acquired includes (i) patents, patent applications and related know-how and documentation; (ii) a formulation of inhaled L-dopa; (iii) several other pulmonary development programs and INDs, which are part of the platform device and formulation IP; (iv) instruments, laboratory equipment and apparatus; and (v) inhalers, inhaler molds, tools, and the associated assembled equipment. In addition, the Company signed the sublease for the facility where the Alkermes operations were housed in Chelsea, Massachusetts. The Company considered these programs, intellectual property and laboratory equipment to be an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors and participants. These items were considered by the Company to be inputs and processes that could be managed as a business by a market participant and was therefore accounted for as a business combination.

Under the terms of the Alkermes Agreement, the Company will also pay to Alkermes royalties for each licensed product as follows: (i) for all licensed products sold by the Company, the Company will pay Alkermes a mid-single digit percentage of net sales of such licensed products and (ii) for all licensed products sold by a Company collaboration partner, the Company will pay Alkermes the lower of a mid-single digit percentage of net sales of such licensed products in a given calendar year or a percentage in the low-to-mid-double digits of all collaboration partner revenue received in such calendar year. Notwithstanding the foregoing, in no event shall the royalty paid be less than a low-single digit percentage of net sales of a licensed product in any calendar year.

13. Defined contribution plan

The Company has a 401(k) defined contribution plan (the 401(k) Plan) for substantially all of its employees. Eligible employees may make pretax contributions to the 401(k) Plan up to statutory limits. At the election of the Board of Directors, the Company may elect to match employee contributions, but did not as of December 31, 2012 and 2013 or for the period from June 17, 2009 (Inception) to December 31, 2013.

14. Revenue

In 2011, the Company received a $313 grant to fund research and development services from the Michael J. Fox Foundation for Parkinson's Research (MJFF). Revenues recognized under this award have been recorded as service revenue during the years ended December 31, 2012 and 2013.

The Company recognized additional revenues under arrangements to perform manufacturing services of $275 and $730 for the year ended December 31, 2012 and for the period from June 17, 2009 (Inception) to December 31, 2013, respectively.

15. Other material arrangements

In June 2013, the Company received a new award from MJFF for $1,000. Within the terms of the award, a repayment provision will require the Company to return payment to MJFF for the $1,000 of research and development funding received upon attaining specific levels of future product sales, or if the Company elects to suspend or cancel further product development.

The award was determined to be a financing arrangement in substance and has been recorded as a non- current monetary liability as of December 31, 2013. The Company recognizes the liability when cash is received from MJFF upon completion of predetermined milestones. As of December 31, 2013, a total of $750 has been received and recognized as an other long-term liability.

16. Net loss per share

Because the Company has reported a net loss for all periods presented, diluted net loss per common share is the same as basic net loss per common share.

The following potentially dilutive securities outstanding, prior to the use of the treasury stock method or if- converted method, have been excluded from the computation of diluted weighted-average shares outstanding, because such securities had an antidilutive impact due to the losses reported:

	As of December 31,	
	2012	2013
Options to purchase common stock	617,053	2,045,214
Conversion of redeemable convertible preferred stock	6,733,397	13,536,671
Unvested restricted stock	613,669	244,167
Convertible notes	1,062,072	—
Total	9,026,191	15,826,052

17. Subsequent events

The Company considers events or transactions that occur after the balance sheet date, but prior to the issuance of the financial statements, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through the date these financial statements were issued.

A. Senior secured credit facility (unaudited)

On March 21, 2014, the Company entered into a Loan and Security Agreement (the senior secured credit facility) with Oxford Finance LLC and Silicon Valley Bank (the Lenders) and made an initial draw of $5,000. The initial draw will require monthly amortization payments commencing on May 1, 2015. A second draw of up to $15,000 was available to the Company through September 30, 2014, subject to the satisfaction of certain conditions, including a determination by the Board of Directors to proceed with a CVT-301 Phase 3 clinical trial. Interest on the initial draw will accrue at the rate of 7.95% per annum, payable monthly. All outstanding principal, plus a 6% final interest payment, will be due and payable on October 1, 2017. The senior secured credit facility draws are subject to a prepayment fee of 3% in the first year, 2% in the second year and 1% in the third year. In conjunction with the senior secured credit facility, the Company incurred issuance costs of $211.

In connection with the initial $5,000 draw, the Company issued to the Lenders warrants to purchase 106,383 shares of Series B Preferred Stock at an exercise price of $1.41 per share. The warrants expire in March 2024. If the Company makes the second draw under the senior secured credit facility, the Lenders will receive a proportionate amount of additional warrants.

Future principal payments on the initial draw are as follows:

Year ending December 31,	
2015	$1,238
2016	1,984
2017	1,778
Total debt principal payments	$5,000

B. Expansion of stock incentive plan and adoption of equity-based compensation plans (unaudited)

In January, 2014 and August, 2014, the Company's Board of Directors and Company's shareholders increased the options available to issue under the plan to a total of 3,482,313 shares. As of September 12, 2014, there were no shares remaining to be issued under this plan.

On September 12, 2014, the Company's Board of Directors and the Company's shareholders adopted its 2014 Equity Incentive Plan (2014 Plan), which will replace the 2010 Plan. The 2014 Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock awards, restricted stock units, stock appreciation rights and other stock-based awards to directors, officers, employees, advisors and consultants of the Company.

The Company has initially reserved 1,760,000 shares of its common stock for the issuance of awards under the 2014 Plan. The 2014 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning on January 1, 2015, by four percent of the outstanding number of shares of common stock on the immediately preceding December 31 or such lesser number of shares as determined by the Company's Board of Directors.

On September 12, 2014, the Company's Board of Directors and the shareholders adopted its 2014 Employee Stock Purchase Plan (2014 ESPP), which will become effective on a date determined by the Company's Board of Directors. Once effective, the 2014 ESPP will enable eligible employees to purchase shares of the Company's common stock at a discount following the date of the offering.

The 2014 ESPP authorizes the initial issuance of up to a total of 576,945 shares of the Company's common stock to participating eligible employees. Unless otherwise determined by the administrator of the 2014 ESPP, the first offering will begin on the first business day in January and July of each year.

C. Series C Preferred Stock (unaudited)

On August 22, 2014, the Company completed a Series C Preferred Stock financing and issued 17,000,000 shares at $3.25 per share for gross proceeds of approximately $55,250.

In connection with the Company's August 2014 Series C Preferred Stock financing, the following changes occurred in the rights and preferences of the Company's capital stock as the Series C Preferred Stock has rights and preferences senior to the Preferred Stock.

For voting, the approval of a majority of the then outstanding shares of Series C Preferred Stock and the Preferred Stock, together as a single class and not as separate series and on an as-converted basis, is required for certain events that may impact the rights and preferences of the preferred stock or common stock to be issued, amend any provisions of the certificate of incorporation, purchase or redeem or pay or declare dividends on shares of capital stock, authorize any debt security exceeding $1,000 or adopt or amend equity-based compensation plans.

In the event of a liquidation or dissolution or winding-up of the Company, including a change in control, the holders of the Series C Preferred Stock have preference to the assets of the Company equal to the greater of (1) the Original Issue Price, $3.25 per share for Series C Preferred Stock, plus any accrued, but unpaid dividends, whether or not declared or (2) such amount per share of Series C Preferred Stock payable as if converted into common stock. Dividends accrue from and after the date of issuance at a rate of $0.26 per annum per share of Series C Preferred Stock whether or not declared by the Company's Board of Directors and are cumulative.

If assets of the Company to be distributed to the holders of the Series C Preferred Stock and the Preferred Stock are insufficient to permit the payment to such holders of their full preferential amount, the assets legally available for distribution shall be distributed first to the Series C Preferred holders and then the remaining funds shall be distributed to the Series B Preferred Stock holders and then the remaining funds shall be distributed to the Series A Preferred Stock holders and then the remaining funds shall be distributed to the common stockholders.

Conversion is mandatory upon the closing of a firm-commitment underwritten public offering in which the public offering price equals or exceeds $3.25 per share (subject to appropriate adjustment in the event of any stock dividend, stock split, combination, or other similar recapitalization with respect to the common stock) and the gross proceeds are not less than $50,000 or at the date and time or the occurrence of an event specified by vote or written consent of the holders of at least a majority of the then-outstanding shares of Series C Preferred Stock and Preferred Stock, together as a single class. The Series C Preferred Stock is convertible into a number of fully paid shares of common stock as determined by dividing the initial Conversion Price, which is $3.25 per share, by the conversion price in effect at the time of conversion.

Upon delivery of notice in writing on or after August 22, 2017 by holders of at least a majority of the Series C Preferred Stock and Preferred Stock, voting together as a single class and not as a separate series and on an as- converted basis, the Company will be required to redeem each share of preferred stock.

D. Reverse Stock Split

The Company executed a one-for-4.237 reverse stock split of its issued and outstanding common stock on September 12, 2014. All share and per share amounts related to issued and outstanding common stock and outstanding options exercisable for common stock included in these financial statements and note to the these financial statements have been retroactively adjusted for all periods presented to reflect the reverse stock split, including reclassifying an amount equal to the reduction in par value of common stock to deficit accumulated during the development stage.

Exhibit 99.2

CIVITAS THERAPEUTICS, INC.
(A development stage company)

Balance sheets
(In thousands, except share and per share data)

	December 31, 2013	September 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 24,052	$ 59,174
Prepaid expenses and other current assets	146	938
Total current assets	24,198	60,112
Property and equipment, net	2,487	3,858
Restricted cash	1,012	1,002
Goodwill	550	550
Intangible assets, net	7,876	7,732
Other assets	—	75
Total assets	$ 36,123	$ 73,329
Liabilities, redeemable convertible preferred stock and stockholders' (deficit) equity		
Current liabilities:		
Accounts payable	$ 1,297	$ 2,153
Accrued liabilities and other	2,046	5,348
Current portion of deferred rent	52	52
Current portion of long-term debt, net	—	736
Total current liabilities	3,395	8,289
Deferred rent	52	13
Contingent consideration	20,549	44,076
Deferred tax liability	117	154
Warrants to purchase redeemable convertible preferred stock	—	485
Long-term debt, net	—	4,124
Other long-term liabilities	750	1,000
Total liabilities	24,863	58,141
Commitments and contingencies (Note 9)		
Redeemable convertible preferred stock:		
Series A Preferred Stock, $0.001 par value; 28,529,412 shares authorized, issued and outstanding at December 31, 2013 and September 30, 2014 (aggregate liquidation preference of $35,936 at September 30, 2014)	34,069	35,807
Series B Preferred Stock, $0.001 par value; 28,825,492 and 28,931,875 shares authorized at December 31, 2013 and September 30, 2014, respectively; 28,825,492 shares issued and outstanding at December 31, 2013 and September 30, 2014 (aggregate liquidation preference of $44,145 at September 30, 2014)	41,543	44,010
Series C Preferred Stock, $0.001 par value; no shares authorized, issued and outstanding at December 31, 2013; 17,000,000 shares authorized, issued and outstanding at September 30, 2014 (aggregate liquidation preference of $55,726 at September 30, 2014)	—	55,638
Stockholders' (deficit) equity:		
Common stock, $0.001 par value; 80,000,000 shares authorized at December 31, 2013 and 105,000,000 shares authorized at September 30, 2014; 1,556,289 shares issued at December 31, 2013 and 1,560,867 shares issued at September 30, 2014; 1,389,344 shares outstanding at December 31, 2013 and 1,560,867 shares outstanding at September 30, 2014	1	2
Deficit accumulated during the development stage	(64,353)	(120,269)
Treasury stock, at cost; 166,945 shares at December 31, 2013 and none at September 30, 2014	—	—
Total stockholders' (deficit) equity	(64,352)	(120,267)
Total liabilities, redeemable convertible preferred stock and stockholders' (deficit) equity	$ 36,123	$ 73,329

See accompanying notes.

CIVITAS THERAPEUTICS, INC.
(A development stage company)

Statements of operations and comprehensive loss
(In thousands, except share and per share data)

	Nine months ended September 30, 2013	Nine months ended September 30, 2014	Period from June 17, 2009 (Inception) to September 30, 2014
Service revenue	$ 53	$ —	$ 1,043
Operating expenses:			
Research and development	10,687	18,162	49,432
General and administrative	3,021	10,681	20,440
Re-measurement of contingent consideration	2,187	23,527	38,003
Amortization of purchased intangible assets	144	144	788
Total operating expenses	16,039	52,514	108,663
Loss from operations	(15,986)	(52,514)	(107,620)
Other income (expense), net:			
Interest expense, net	(2,142)	(329)	(2,525)
Loss on extinguishment of convertible notes	(534)	—	(534)
Other	—	(346)	(330)
Other income (expense), net	(2,676)	(675)	(3,389)
Loss before provision for income taxes	(18,662)	(53,189)	(111,009)
Provision for income taxes	37	37	154
Net loss	$ (18,699)	$ (53,226)	$ (111,163)
Comprehensive loss	$ (18,699)	$ (53,226)	$ (111,163)
Reconciliation of net loss to net loss applicable to common stockholders:			
Net loss	$ (18,699)	$ (53,226)	$ (111,163)
Accretion and dividends on redeemable convertible preferred stock	(1,993)	(4,683)	(11,723)
Net loss attributable to common stockholders—basic and diluted	$ (20,692)	$ (57,909)	$ (122,886)
Net loss per share applicable to common stockholders—basic and diluted	$ (19.34)	$ (39.62)	$ (184.39)
Weighted-average number of common shares used in computing net loss per share applicable to common stockholders—basic and diluted	1,069,870	1,461,609	666,441

See accompanying notes.

CIVITAS THERAPEUTICS, INC.
(A development stage company)

Statements of cash flows
(In thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Period from June 17, 2009 (Inception) to September 30, 2014
Operating activities			
Net loss	$ (18,699)	$ (53,226)	$ (111,163)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	539	604	2,597
Share-based compensation expense	237	1,965	2,572
Re-measurement of contingent consideration	2,187	23,527	38,003
Re-measurement of warrants to purchase redeemable convertible preferred stock	—	346	346
Non-cash interest expense	2,143	122	2,322
Loss on extinguishment of convertible notes	534	—	534
Gain on disposal of equipment	—	—	(6)
Deferred rent	(39)	(39)	(15)
Deferred taxes	37	37	154
Changes in operating assets and liabilities:			
Restricted cash	—	10	(1,002)
Prepaid expenses and other current assets	100	(778)	(924)
Accounts payable and accrued expenses	1,669	4,520	7,494
Net cash used in operating activities	(11,292)	(22,912)	(59,088)
Investing activities			
Proceeds from sale of property and equipment	6	—	6
Purchases of property and equipment	(512)	(2,193)	(5,047)
Net cash used in investing activities	(506)	(2,193)	(5,041)
Financing activities			
Proceeds from issuance of preferred stock, net	28,739	55,160	108,482
Proceeds from convertible notes, net	—	—	8,986
Proceeds from issuance of restricted stock	—	—	2
Proceeds from exercise of stock options	3	28	44
Proceeds from other material financing arrangements	250	250	1,000
Cash paid for issuance costs	—	(109)	(109)
Proceeds from long-term debt, net	—	4,898	4,898
Net cash provided by financing activities	28,992	60,227	123,303
Net increase in cash and cash equivalents	17,194	35,122	59,174
Cash and cash equivalents at beginning of period	13,539	24,052	—
Cash and cash equivalents at end of period	$ 30,733	$ 59,174	$ 59,174
Supplemental disclosures of cash flow information			
Equipment additions included in accounts payable and accrued expenses	$ 382	$ 6	$ 6
Issuance of Series A Preferred Stock as consideration for acquisition	$ —	$ —	$ 3,530
Conversion of convertible notes for Series B Preferred Stock	$ 9,000	$ —	$ 9,000
Accretion and dividends on redeemable convertible preferred stock	$ 1,993	$ 4,683	$ 11,723
Cash paid for interest	$ —	$ 177	$ 177

See accompanying notes

CIVITAS THERAPEUTICS, INC.
(A development stage company)

NOTES TO FINANCIAL STATEMENTS
(In thousands, except share and per share data)

1. Nature of business

Civitas Therapeutics, Inc. (the Company) was incorporated on June 17, 2009 as a Delaware corporation with operations based in Chelsea, Massachusetts. The Company is a clinical stage biopharmaceutical company dedicated to developing inhaled therapies using the ARCUS ® therapeutic technology. The first product candidate using the ARCUS ® technology, CVT-301, is focused on treating OFF episodes in patients with Parkinson's disease.

Sale of Company

On October 22, 2014, the Company was acquired by a wholly-owned subsidiary (Merger Sub) of Acorda Therapeutics, Inc. (Acorda) in accordance with the Agreement and Plan of Merger, dated as of September 24, 2014 (the Merger Agreement), by and among Acorda, Merger Sub, the Company and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the securityholder's representative (SRS). Pursuant to the terms of the Merger Agreement, Merger Sub has merged with and into the Company, which is the surviving corporation in the Merger and which is continuing as a wholly-owned subsidiary of Acorda under the Civitas name. Pursuant to the terms of the Merger Agreement, all outstanding shares of the Company's common stock and preferred stock, options to purchase shares of the Company's common stock and warrants to purchase shares of the Company's preferred stock, other than shares of the Company's common stock and the Company's preferred stock held by the Company (which were cancelled as a result of the Merger) were converted into the right to receive $525,000 in cash in the aggregate, without interest, less (i) $5,300 due and payable under the Company's existing secured loan facility, consisting of $5,000 in principal and $300 in prepayment fees, (ii) $30,000 due and payable to Alkermes, Inc. (Alkermes) in connection with the exercise by the Company of its option to purchase manufacturing facility equipment from Alkermes and (iii) a portion of the Company's transaction expenses.

Since inception, the Company has devoted substantially all of its efforts to research and development, business planning, recruiting management and staff, and raising capital. The Company has not recognized any revenue from its planned principal operations and, as a result, is considered to be in the development stage.

2. Summary of significant accounting policies

Basis of presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted accounting principles as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB).

Use of estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from such estimates. The Company utilizes certain estimates in the determination of the fair value of its common and redeemable convertible preferred stock, share-based compensation, valuation of goodwill, intangible assets, derivatives, warrants to purchase redeemable convertible preferred stock and contingent consideration and to record expenses relating to research and development contracts. These contract estimates, which are primarily related to the length of service and stage of each contract, are determined by the Company based on input from internal project management, as well as from third-party service providers.

Cash and cash equivalents

Cash equivalents include all highly liquid investments maturing within 90 days from the date of purchase.

Segment information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions on how to allocate resources and assess performance. The Company views its operations and manages its business in one operating segment. All material long-lived assets of the Company reside in the United States. All revenue recognized was earned in the United States.

Restricted cash

Restricted cash represents cash deposits held in connection with obligations under facility leases or other operating agreements. Amounts are reported as non-current unless restrictions are expected to be released in the next twelve months.

Concentrations of credit risk

Cash and cash equivalents are financial instruments that potentially subject the Company to concentrations of credit risk. At December 31, 2013 and September 30, 2014, substantially all of the Company's cash was deposited in accounts at one financial institution. The Company maintains its cash, which at times may exceed the federally insured limits, with a large financial institution and, accordingly, the Company believes such funds are subject to minimal credit risk. The Company has no significant off-balance sheet risks, such as foreign exchange contracts, option contracts or other foreign hedging arrangements.

Fair value of financial instruments

The Company accounts for certain of its financial assets and liabilities and non-financial assets and non- financial liabilities at fair value. Accounting standards include disclosure requirements around fair values used for certain financial instruments and establish a fair value hierarchy. The three-tier hierarchy prioritizes valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1—Quoted unadjusted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all observable inputs and significant value-drivers are observable in active markets.
- Level 3—Model derived valuations in which one or more significant inputs or significant value-drivers are unobservable, including assumptions developed by the Company.

Property and equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. The estimated useful life of the Company's assets are periodically reviewed for reasonableness. Changes in useful lives are accounted for prospectively. Repairs and maintenance costs are expensed as incurred, whereas major improvements are capitalized as additions to property and equipment. The estimated useful lives of property and equipment are as follows:

	Estimated useful life (years)
Manufacturing equipment	3 to 5
Office and computer equipment	3 to 5
Furniture	5
Leasehold improvements	Shorter of useful life or remaining lease term

Construction in-process is stated at cost, which includes the cost of construction and other direct costs attributable to the recommissioning of the Company's large-scale equipment and manufacturing facility. No depreciation expense is made on construction-in-process until such time as the relevant assets are completed and put into use.

Business acquisitions

On December 27, 2010, the Company entered into the Asset Purchase and License Agreement (the Alkermes Agreement) with Alkermes, Inc. (Alkermes) in which the Company licensed or acquired from Alkermes certain pulmonary development programs and investigational new drug applications (INDs), underlying intellectual property and laboratory equipment associated with the pulmonary business of Alkermes. The Company's financial statements include the operations of this acquired business after the completion of the acquisition. The Company accounts for acquired businesses using the acquisition method of accounting. The acquisition method requires, among other things, that assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date, with limited exceptions, and that the fair value of acquired in-process research and development (IPR&D) be recorded on the balance sheet. Also, transaction costs are expensed as incurred. Any excess of the acquisition consideration over the assigned values of the net assets acquired is recorded as goodwill. Contingent consideration is included within the acquisition cost and is recognized at its fair value on the acquisition date. A liability resulting from contingent consideration is re-measured to fair value at each reporting date until the contingency is resolved and changes in fair value are recognized in earnings. The contingent consideration is based upon the fair value of future royalties on net product sales from products developed from licensed technology under the Alkermes Agreement.

Valuation of contingent purchase price consideration

Acquisitions may include contingent consideration payments based on the achievement of certain future development and financial performance measures. The Company estimates the fair value of the contingent consideration based on revenue projections and estimated probabilities of achievement. The Company believes that its estimates and assumptions are reasonable; however, there is significant judgment involved. The Company evaluates, on a routine, periodic basis, the estimated fair value of the contingent consideration and changes in estimated fair value, subsequent to the initial fair value estimate at the time of the acquisition, are reflected in income or expense in the statements of operations. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and forecasted levels of sales and changes in probability assumptions with respect to the likelihood of achieving the measures. Any changes in the estimated fair value of contingent consideration may have a material impact on the Company's operating results.

Goodwill

Goodwill represents the excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed. The Company operates in a single reporting unit. The annual test for goodwill impairment is a multiple step process. The first step is a qualitative assessment of operational and financial information to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If so, a two-step process begins with a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. If this step indicates impairment, then in the second step, the loss is measured as the excess of recorded goodwill over its implied fair value. Implied fair value is the excess of the fair value of the reporting unit over the fair value of all identified assets and liabilities. The Company tests goodwill for impairment annually on October 1st, or when events or circumstances indicate that the fair value may be below the carrying value of the asset. The Company has not recorded any impairments of its goodwill.

Intangible assets

Intangible assets with finite useful lives consist primarily of purchased developed technology and are amortized on a straight-line basis over their estimated useful lives, which range from 18 to 19 years. The estimated useful lives associated with finite-lived intangible assets are consistent with the estimated lives of the associated patents and may be modified when circumstances warrant. Changes in useful life are accounted for prospectively.

Intangible assets with finite lives are reviewed for impairment when events or circumstances indicate that the carrying value of an asset may not be recoverable. If the asset becomes impaired, the carrying amount of the related intangible asset is written down to its fair value and an impairment charge would be recognized in the period in which estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. The Company has not recorded any impairments of its intangible assets.

The fair value of IPR&D acquired through a business combination is capitalized as an indefinite-lived intangible asset until the completion or abandonment of the related research and development activities. IPR&D is not amortized, but is tested for impairment annually on October 1st, or when events or circumstances indicate that the fair value may be below the carrying value of the asset. If and when development is complete, which generally occurs when regulatory approval to market a product is obtained, the associated assets would become finite-lived and would then be amortized over their estimated useful lives.

Research and development costs

Costs incurred in the research and development of the Company’s product candidates are expensed as incurred. Research and development expenses consist of costs incurred in performing research and development activities and include salaries and benefits, preclinical and clinical activities, manufacturing development, scale-up and research-related facility and overhead costs, laboratory supplies and equipment and other contract services. Payments made in advance of services incurred are recorded as prepaid expense.

Revenue

The Company has primarily generated service revenue from research and development grant programs and contracted manufacturing activities.

The Company recognizes revenue in accordance with ASC 605, *Revenue Recognition* . Accordingly, revenue is recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists
- Delivery has occurred or services have been rendered
- The seller’s price to the buyer is fixed or determinable
- Collectability is reasonably assured

Amounts received prior to satisfying the revenue recognition criteria are recorded as deferred revenue in the Company’s balance sheets. Amounts expected to be recognized as revenue within the twelve months following the balance sheet date are classified as deferred revenue, current portion. Amounts not expected to be recognized as revenue within the twelve months following the balance sheet date are classified as deferred revenue, net of current portion.

Service revenue

The Company generates service revenue through agreements with a non-profit entity, which is recognized using the proportional performance method. The Company also has performed contract manufacturing services for pharmaceutical and biotechnology companies and recognizes revenue under such arrangements upon completion of performance.

Funded research and development

The Company evaluates grants received for the performance of research and development services to assess whether the amounts received should be accounted for as a financing arrangement. The Company considers whether it is obligated to repay any funds received from such parties regardless of the ultimate success of the research and development. In circumstances in which the financial risk has not been transferred to the funding party, the Company accounts for such funds received as a liability.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's comprehensive loss equals reported net loss for all periods presented.

Share-based compensation

The Company records share-based compensation for options granted to employees based on the grant date fair value of awards issued, and the expense is recorded on a straight-line basis over the requisite service period. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options. The determination of the fair value of stock options on the date of grant using an option-pricing model is affected by the Company's common stock price, as well as a number of other subjective variables.

The Company accounts for share-based compensation arrangements with non-employees based upon the fair value of the consideration received or the equity instruments issued, whichever is more reliably measurable. The measurement date for non-employee awards is generally the date performance of services required from the non-employee is complete, resulting in periodic adjustments to share-based compensation during the vesting period for changes in the fair value of the awards. Share-based compensation costs for non-employee service awards are recognized as services are provided, which is generally the vesting period, on a straight-line basis. The unvested portion of the awards are subject to re-measurement over the vesting period.

Net loss per share

Basic net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares and dilutive common stock equivalents outstanding for the period, determined using the treasury stock method and the if-converted method, for convertible securities, if inclusion of these is dilutive.

Income taxes

The Company provides deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the Company's financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates expected to be in effect in the years in which the differences are expected to reverse. A valuation allowance is provided to reduce the deferred tax assets to the amount that will more likely than not be realized.

The Company applies ASC 740, *Income Taxes,* in accounting for uncertainty in income taxes. The Company does not have any material uncertain tax positions for which reserves would be required. The Company will recognize interest and penalties related to uncertain tax positions, if any, in income tax expense.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 , *"Revenue from Contracts with Customers"* (ASU 2014-09), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. The new standard will be effective for the Company for annual reporting periods after December 15, 2016 and early adoption is not permitted for public entities. The Company is currently evaluating the potential impact that ASU 2014-09 may have on its financial position and results of operations.

In June 2014, the FASB issued ASU No. 2014-10, " *Development Stage Entities (Topic 915) – Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810* , *Consolidation"* (ASU 2014-10). The amendments in this update will simplify financial reporting for development stage entities by eliminating inception-to-date reporting requirements specific to development stage entities. Instead, ASU 2014-10 clarifies how these entities should tailor existing disclosures to explain the risks and uncertainties related to their activities. ASU 2014-10 also eliminates certain consolidation guidance, which may cause companies with interests in entities in a development stage to identify more of them as variable interest entities and may change prior consolidation decisions. ASU 2014-10 is effective for the Company after December 15, 2014 and is applied retrospectively. The adoption of this standard will impact our financial statement presentation, but will not have a material impact on the Company's financial position or results of operations.

Deferred issuance costs

Deferred issuance costs, which primarily consist of direct incremental legal and accounting fees relating to debt or the IPO, are capitalized. For debt transactions, the deferred issuance costs paid to the lenders will be offset against the debt proceeds. The deferred issuance costs paid to non-lenders in debt transactions are capitalized. Both amounts are recognized as additional interest expense using the effective interest method over the term of the debt.

The deferred issuance costs related to the proposed offering of the Company's common stock will be offset against the IPO proceeds upon the consummation of the offering. In the event the offering is aborted, deferred issuance costs will be expensed. During the nine months ended September 30, 2014, the Company expensed $3,148 of deferred issuance costs related to the aborted offering of the Company's common stock, which are included in general and administrative expenses in the statement of operations. No such amounts were capitalized as of December 31, 2013 or September 30, 2014.

3. Restricted cash

At December 31, 2013 and September 30, 2014, the Company had $1,000 of restricted cash in the form of a letter of credit on behalf of Alkermes. The bank requires that the Company maintain this deposit as collateral for the letter of credit, which serves as the security deposit on the lease of the Company's facility in Chelsea, Massachusetts. The remaining amounts were deposits for various operating activity agreements for corporate matters.

4. Fair value of financial instruments

For financial instruments, including cash, restricted cash, accounts payable and accrued expenses, the carrying amount approximates fair value due to their short-term nature. The fair value of the Company's long-term debt is determined using an effective interest calculation based on the long-term debt and is a Level 3 liability within the fair value hierarchy. The fair value of the Company's long-term debt at September 30, 2014 was $4,860 which was computed using the effective interest rate which considers the timing of the interest and principal payments and the discount on the long-term debt. Please refer to Note 16 for further information regarding the Company's long-term debt.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. During the twelve months ended December 31, 2013 and the nine months ended September 30, 2014, there was no reclassification in financial assets or liabilities between Level 1, 2 or 3 categories.

The following tables set forth by level, within the fair value hierarchy, the Company's assets and liabilities as of December 31, 2013 and September 30, 2014 that are measured at fair value on a recurring basis:

	Balance at December 31, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 24,052	$ 24,052	$ —	$ —
	$ 24,052	$ 24,052	$ —	$ —
Liabilities:				
Acquisition—related contingent consideration	$ 20,549	$ —	$ —	$ 20,549
	$ 20,549	$ —	$ —	$ 20,549

	Balance at September 30, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 59,174	$ 59,174	$ —	$ —
	$ 59,174	$ 59,174	$ —	$ —
Liabilities:				
Acquisition—related contingent consideration	$ 44,076	$ —	$ —	$ 44,076
Warrant Liability	485	—	—	485
	$ 44,561	$ —	$ —	$ 44,561

The valuation technique used to measure the fair value of the contingent consideration is based on a probability-weighted discounted cash flow model. This method estimates the fair value of the liability based on the present value of its future economic costs and is predicated upon estimates of future net sales of the Company's products that would result in royalties owed to Alkermes (Note 11). Significant assumptions incorporated within the estimates of future net sales include the estimated usage of the Company's products, the estimated selling prices of the Company's products, and the discount rate to be applied over the royalty periods.

The Company entered into a convertible note financing (Note 10) that was deemed to include an embedded derivative related to the conversion option within the convertible notes. The embedded derivative was required to be bifurcated from the host instrument because the derivative was not clearly and closely related to the host instrument. The Company determined the fair value of its embedded derivative on the date of issuance and at the end of each reporting period. The Company classified the embedded derivative with its convertible notes within the balance sheet and changes in the fair market value are included in interest expense. The valuation technique used to measure the convertible notes derivative liability was a probability-weighted discounted cash flow model predicated upon the estimated probability of the Company completing its next Qualified Financing, as defined in the Note Purchase Agreement for the convertible notes, subsequent to the issuance of the convertible notes.

In March 2014, the Company issued warrants to purchase an aggregate of 106,383 shares of Series B redeemable convertible preferred stock (Series B Preferred Stock) at an exercise price of $1.41 per share in connection with the Loan and Security Agreement (Note 16). The warrants are exercisable immediately and have a ten year life. The warrants were initially valued at $139 using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 2.73%; expected dividend yield of zero; expected volatility of 68%; and an expected term of ten years, and were treated as a discount on the long-term debt which is being expensed as additional interest over the term of the long-term debt using the effective interest method. In accordance with ASC 480, *Distinguishing Liabilities from Equity* , the characteristics of these warrants and the rights and privileges of the underlying Series B Preferred Stock result in the classification of these warrants as a liability that is carried at fair value. Changes to the fair value of the warrants are recognized as a component of other income (expense), net in the statement of operations and comprehensive loss.

Each of these liabilities will be re-measured at each reporting period until settlement.

Level 3 changes:

The following is a reconciliation of the beginning and ending balances for the contingent consideration measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the periods ending December 31, 2013 and September 30, 2014:

Balances at December 31, 2012	$15,294
Change in fair value of contingent consideration	5,255
Balances at December 31, 2013	$20,549
Change in fair value of contingent consideration	23,527
Balances at September 30, 2014	$44,076

The following is a reconciliation of the beginning and ending balances for the convertible notes derivative liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period ending December 31, 2013:

Balances at December 31, 2012	$ 1,668
Change in fair value of derivative liability	682
Settlement of the derivative liability	(2,350)
Balances at December 31, 2013	$ —

The Company estimated the fair value of the warrants using the Black-Scholes option pricing model based on the following assumptions as of September 30, 2014:

Expected volatility	68%
Expected term (years)	9.48
Risk-free interest rate	2.53%
Expected dividend yield	— %

The following is a reconciliation of the beginning and ending balances for the warrant liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine months ended September 30, 2014:

Balances at December 31, 2013	$—
Issuance of warrants to purchase redeemable convertible preferred stock	139
Change in fair value of warrant liability	346
Balances at September 30, 2014	$485

There were no exercises, cancellations, or expirations of warrants during the nine months ended September 30, 2014.

During the year ended December 31, 2013 and the nine months ended September 30, 2014, the Company did not change any of the valuation techniques used to measure its liabilities at fair value.

5. Property and equipment

Property and equipment consists of the following as of December 31, 2013 and September 30, 2014:

	December 31, 2013	September 30, 2014
Manufacturing equipment	$ 1,177	$ 2,444
Office and computer equipment	242	374
Furniture	26	43
Leasehold improvements	734	2,806
Construction in-process	1,657	—
Total property and equipment	3,836	5,667
Accumulated depreciation	(1,349)	(1,809)
Property and equipment, net	$ 2,487	$ 3,858

Depreciation expense was $395 and $460 for the nine months ended September 30, 2013 and 2014, respectively, and $1,809 and for the period from June 17, 2009 (Inception) to September 30, 2014.

6. Intangible assets and goodwill

Intangible assets related to acquired developed and in-process technologies reflect the estimated fair value of the rights acquired through the Alkermes Agreement (Note 11). Acquired developed technologies are finite- lived intangible assets and are being amortized over their estimated lives ranging from 18 to 19 years.

The excess of the total acquisition consideration over the fair value amounts assigned to the assets acquired and the liabilities assumed represents the goodwill amount resulting from the acquisition. There have been no changes in the carrying amount of goodwill since the acquisition.

The gross carrying amounts and net book values of our intangible assets were as follows:

	Cost	Accumulated amortization	Net book value
As of December 31, 2013			
ARCUS Platform—Device IP	$2,430	$ (407)	$ 2,023
ARCUS platform—Formulation IP	1,160	(237)	923
CVT—301 Project (indefinite-lived)	4,930	—	4,930
Total	8,520	(644)	7,876
As of September 30, 2014			
ARCUS Platform—Device IP	$2,430	$ (509)	$ 1,921
ARCUS platform—Formulation IP	1,160	(279)	881
CVT—301 Project (indefinite-lived)	4,930	—	4,930
Total	8,520	(788)	7,732

Amortization was $144 for each of the nine months ended September 30, 2013 and 2014, and $788 for the period from June 17, 2009 (Inception) to September 30, 2014.

7. Accrued expenses

The components of accrued expenses as of December 31, 2013 and September 30, 2014 are as follows:

	December 31, 2013	September 30, 2014
Research and development expenses	$ 1,203	$ 2,528
Employee vacation	177	275
Severance	334	56
Bonus	148	716
Legal and professional fees	—	1,519
Payroll costs	—	211
Other	184	43
Total	$ 2,046	$ 5,348

On June 17, 2013, the Company amended and restated the employment agreement with Mr. Glenn Batchelder, former Chief Executive Officer (CEO), to include several additions to Mr. Batchelder's compensation package. As part of these additions, Mr. Batchelder earned a special bonus calculated as $54 upon the occurrence of the Series B Preferred Stock financing on September 3, 2013 (Note 8) and a retention bonus of $94 for remaining employed with the Company until the occurrence of the financing. In addition, the restated agreement added termination benefits, including nine months continued salary after termination and reimbursement of certain of Mr. Batchelder's costs for eighteen months after termination. In the fourth quarter of 2013, the Company deemed it probable that the termination costs would be paid to Mr. Batchelder. All compensation, bonus, and severance costs associated with the restated employment agreement were expensed and accrued at December 31, 2013.

8. Stockholders' (deficit) equity

Common stock

Each share of common stock is entitled to one vote. The holders of record of the shares of common stock, exclusively and as a separate class, shall be entitled to elect one director of the Company. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding. On December 22, 2010, the Company executed a stock split of 3.526945 shares issued for every 1 common share issued (with no fractional shares issued). All share numbers listed as issued prior to this date have been adjusted to reflect the number of shares issued post the stock split.

The Company executed a one-for-4.237 reverse stock split of its issued and outstanding common stock on September 12, 2014. All share and per share amounts related to issued and outstanding common stock and outstanding options exercisable for common stock included in these financial statements and notes to these financial statements have been retroactively adjusted for all periods presented to reflect the reverse stock split, including reclassifying an amount equal to the reduction in par value of common stock to deficit accumulated during the development stage. The conversion ratios of the Company's Preferred Stock have also been adjusted to reflect the reverse stock split.

Restricted common stock

At various dates in 2009 and 2010, the Company issued an aggregate of 1,746,958 shares of restricted common stock to its employee and non-employee founders at a fair value of $0.04 per share, which represented the fair value of the Company's common stock as determined by management and the Board of Directors on the dates of issuance.

These awards of restricted common stock were not made under the 2010 Stock Incentive Plan, but are subject to transfer restrictions and are subject to repurchase by the Company and, therefore, not accounted for as outstanding until they vest. On December 22, 2010, the Company repurchased 166,945 non-vested shares from one of its founders at cost. These shares are classified as treasury stock as of December 31, 2013. These shares were retired in 2014 and are no longer outstanding as of September 30, 2014.

The following is a summary of restricted common stock activity outside of the 2010 Stock Incentive Plan:

	Number of shares	Weighted-average grant date fair value
Non-vested shares at December 31, 2013	244,167	$ 0.04
Issued	—	—
Vested	(131,877)	$ 0.04
Forfeited	—	—
Non-vested shares at September 30, 2014	112,290	$ 0.04

The total fair value of shares vested was $530, $1,092 and $2,428 for the nine months ended September 30, 2013 and 2014 and for the period from June 17, 2009 (Inception) to September 30, 2014, respectively.

Redeemable convertible preferred stock

Redeemable convertible preferred stock consisted of the following as of December 31, 2013 and September 30, 2014:

	Issuance Date	Preferred shares issued and outstanding	Carrying value December 31, 2013	Carrying value September 30, 2014
Series A	December 27, 2010	11,764,706	$ 14,470	$ 15,207
	April 15, 2011	2,500,000	3,019	3,175
	December 20, 2011	14,264,706	16,580	17,425
Series B	September 3, 2013	28,825,492	41,543	44,010
Series C	August 22, 2014	17,000,000	—	55,638
Total		74,354,904	$ 75,612	$ 135,455

On December 27, 2010, the Company completed a Series A redeemable convertible preferred stock (Series A Preferred Stock) financing and issued 11,764,706 shares of Series A Preferred Stock at $1 per share, for gross proceeds of approximately $11,764.

On April 15, 2011, the Company completed a second closing of the Series A Preferred Stock financing and issued 2,500,000 shares of Series A Preferred Stock at $1 per share, for gross proceeds of approximately $2,500 from a new investor.

The Series A Preferred Stock purchase investors also agreed to purchase up to an additional 14,264,706 shares of Series A Preferred Stock in one subsequent closing, at a fixed price of $1 per share, subject to the Company's attainment of certain milestones. The Company concluded that the forward purchase contract was an embedded feature that was not legally detachable and did not require separate accounting treatment. The milestones were met and the final tranche was closed on December 20, 2011 where the then current investors purchased 14,264,706 shares of Series A Preferred Stock at $1 per share, for gross proceeds of approximately $14,264.

On September 3, 2013, the Company completed a Series B Preferred Stock financing and issued 28,825,492 shares of Series B Preferred Stock at $1.41 per share. Of the 28,825,492 shares issued, 20,513,630 shares were sold for proceeds of $28,924, while 8,311,862 shares were issued at a value of $11,720 as a result of the conversion of the convertible notes plus accrued interest (Note 10).

On August 22, 2014, the Company completed a Series C Preferred Stock financing and issued 17,000,000 shares at $3.25 per share for gross proceeds of approximately $55,250.

The Company assessed all terms and features of the Preferred Stock in order to identify any potential embedded features that would require bifurcation or any beneficial conversion features. As part of this analysis, the Company assessed the economic characteristics and risks of its Preferred Stock, including conversion and liquidation features, as well as dividend and voting rights. Based on the Company's determination that its Preferred Stock is an "equity host," the Company determined that all features of the Preferred Stock are most clearly and closely associated with an equity host, and, although the Preferred Stock includes conversion features, such conversion features do not require bifurcation as a derivative liability.

The Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock, herein referred to as Preferred Stock, have the following rights and preferences:

Voting

Preferred stockholders are entitled to a number of votes equal to the number of whole shares of common stock into which the Preferred Stock is convertible on the date of record. Holders of the Preferred Stock shall vote together with the holders of common stock as a single class, except for the election of the Board of Directors. For such election, the preferred stockholders shall vote exclusively as a separate class to elect six directors. Any remaining director(s) of the Company shall be elected by the holders of common stock and the preferred stockholders voting as a single class.

The approval of a majority of the outstanding shares of Preferred Stock is required for certain events that may impact the rights and preferences of the preferred stock, including to liquidate, wind up or dissolve the business, increase or decrease the number of shares of preferred or common stock to be issued, amend any provision of the certificate of incorporation, purchase or redeem or pay or declare dividends on shares of capital stock, authorize any debt security exceeding $1,000 or adopt or amend equity-based compensation plans.

Dividends

Dividends accrue on Preferred Stock from and after the date of issuance at a rate of $0.08, $0.1128 and $0.26 per annum per share of Series A, Series B and Series C Preferred Stock, respectively, whether or not declared by the Company's Board of Directors and are cumulative. Such dividends shall be payable only when, as, and if declared by the Company's Board of Directors. For the period from June 17, 2009 (Inception) to September 30, 2014, no dividends have been declared or paid.

Liquidation preference

In the event of any liquidation, dissolution, or winding up of the affairs of the Company, the holders of the then-outstanding Preferred Stock shall receive distribution, before any payment shall be made to the holders of common stock, the greater of (1) Original Issue Price, which is $1 per share for Series A Preferred Stock, $1.41 per share for Series B Preferred Stock and $3.25 per share for Series C Preferred Stock, plus any accrued, but unpaid, dividends whether or not declared, or (2) such amount per share of Preferred Stock payable as if converted into common stock. After the payment of any preferential amount to the preferred stockholders, any remaining assets of the Company shall be distributed ratably among the holders of common stock. If the assets to be distributed to the holders of the Preferred Stock are insufficient to permit the payment to such holders of their full preferential amount, the assets legally available for distribution shall be distributed first to the Series C Preferred Stock holders and then the remaining funds shall be distributed to the Series B Preferred Stock holders and then the remaining funds shall be distributed to the Series A Preferred Stock holders.

Conversion

Each share of Preferred Stock, at the option of the holder, is convertible into a number of fully paid shares of common stock as determined by dividing the initial Conversion Price, which is $4.237 per share for Series A Preferred Stock, $5.974 per share for Series B Preferred Stock and $13.77 per share for Series C Preferred Stock, by the conversion price in effect at the time of conversion. The initial Conversion Price of the Preferred Stock is subject to adjustment upon the occurrence of certain events, such as stock splits and stock dividends. Conversion is mandatory upon the closing of a firm-commitment underwritten public offering in which the public offering price equals or exceeds $13.77 per share (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the common stock) and the gross proceeds are not less than $50,000 or at the date and time or the occurrence of an event specified by vote or written consent of the holders of at least the majority of the then-outstanding shares of Preferred Stock.

Redemption

Upon delivery of notice in writing on or after August 22, 2017 by the holders of at least the majority of the then outstanding Preferred Stock voting together as a single class and not as separate series, and on an as-converted basis, requesting all shares of Preferred Stock be redeemed, the Company will be required to redeem each share of Preferred Stock. The redemption price shall be equal to the applicable Original Issue Price per share plus accrued but unpaid dividends on such shares, whether or not declared or such amount per share of Preferred Stock payable as if converted into common stock.

Stock incentive plan

The Company's 2010 Stock Incentive Plan (2010 Plan) provides for the issuance of a total of 3,482,313 shares of common stock in the form of incentive stock options, non-qualified stock options, restricted stock, restricted stock units and other stock-based awards to directors, officers, employees, advisors and consultants of the Company as of September 30, 2014.

Generally, stock options are granted at not less than fair value as determined by the Board of Directors, expire no later than ten years from the date of grant, and vest over various periods not exceeding four years. At September 30, 2014, no shares were available for future grant under the 2010 Plan.

The following is a summary of activity under the 2010 Plan:

	Number of shares	Weighted-average exercise price per share	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at December 31, 2013	2,045,214	$ 1.55	9.3	$ 1,027
Granted	1,563,453	$ 5.43		
Exercised	(39,646)	$ 0.72		
Cancelled or forfeited	(179,853)	$ 1.75		
Outstanding at September 30, 2014	3,389,168	$ 3.33	9.0	$ 63,002
Exercisable at September 30, 2014	796,384	$ 1.54	8.3	$ 16,230
Vested or expected to vest at September 30, 2014	3,389,168	$ 3.33	9.0	$ 63,002

The fair values of options granted to employees and non-employees for the nine months ended September 30, 2013 and 2014 were calculated using the following estimated weighted-average assumptions:

	September 30, 2013	September 30, 2014
Risk-free interest rate	1.28%	1.84%
Expected dividend yield	— %	— %
Expected volatility	69%	80%
Expected term (years)	6.0	6.0

The weighted average grant date fair value of options granted during the nine months ended September 30, 2013 and 2014 and for the period from June 17, 2009 (Inception) to September 30, 2014 was $0.94, $3.96 and $2.23 per share, respectively.

The expected term utilized in the Black-Scholes option-pricing model for employees was determined according to the simplified method which reflects the average of the vesting tranche dates and the contractual term. For non-employee options the contractual term was utilized for expected term. As there has been no public market for the Company's common stock, the Company has determined the volatility for options granted based on an analysis of reported data for a representative group of companies that issued options with substantially similar terms. The risk-free rate is determined by reference to U.S. Treasury zero-coupon issues with remaining maturities consistent with the expected term of the options. The Company has not paid, and does not anticipate paying, cash dividends on shares of common stock; therefore, the expected dividend yield is assumed to be zero. The Company estimates forfeitures at the time of grant and revises the estimates in subsequent periods if actual forfeitures differ from the estimates.

The following table summarizes the share-based compensation expense for stock options and restricted common stock granted to employees and non-employees that was recorded in the Company's statements of operations for the nine months ended September 30, 2013 and 2014 and for the period from June 17, 2009 (Inception) to September 30, 2014:

	Nine months ended September 30,		Period from June 17, 2009 (Inception) to September 30,
	2013	2014	2014
Research and development	$ 104	$ 578	$ 967
General and administrative	133	1,387	1,605
Total share-based compensation expense	$ 237	$ 1,965	$ 2,572

As of September 30, 2014 , there was $8,279 of total unrecognized compensation cost related to non- vested equity awards. Total unrecognized compensation cost will be adjusted for future changes in forfeitures, if any. The Company expects to recognize that cost over a remaining weighted-average period of 3.0 years.

The total intrinsic value of options exercised during the nine months ended September 30, 2013 and 2014 and the period from June 17, 2009 (Inception) to September 30, 2014 was $7, $278 and $353, respectively. The intrinsic value is calculated as the difference between the fair value and the exercise price of the shares at the date of exercise.

On September 12, 2014, the Company's Board of Directors and the Company's shareholders adopted its 2014 Equity Incentive Plan (2014 Plan), which will replace the 2010 Plan. The 2014 Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock awards, restricted stock units, stock appreciation rights and other stock-based awards to directors, officers, employees, advisors and consultants of the Company.

The Company has initially reserved 1,760,000 shares of its common stock for the issuance of awards under the 2014 Plan. The 2014 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning on January 1, 2015, by four percent of the outstanding number of shares of common stock on the immediately preceding December 31 or such lesser number of shares as determined by the Company's Board of Directors.

On September 12, 2014, the Company's Board of Directors and the shareholders adopted its 2014 Employee Stock Purchase Plan (2014 ESPP), which will become effective on a date determined by the Company's Board of Directors. Once effective, the 2014 ESPP will enable eligible employees to purchase shares of the Company's common stock at a discount following the date of the offering.

The 2014 ESPP authorizes the initial issuance of up to a total of 576,945 shares of the Company's common stock to participating eligible employees. Unless otherwise determined by the administrator of the 2014 ESPP, the first offering will begin on the first business day in January and July of each year.

Shares reserved for future issuance

The Company has reserved the following shares of common stock, for the potential conversion of outstanding Preferred Stock, vesting of restricted common stock, exercise of warrants to purchase redeemable convertible preferred stock and the exercise of stock options as of September 30, 2014:

Conversion of Series A Preferred Stock	6,733,397
Conversion of Series B Preferred Stock	6,803,274
Conversion of Series C Preferred Stock	4,012,264
Vesting of restricted stock	112,290
Options to purchase common stock	5,149,168
Shares available under the 2014 ESPP	576,945
Warrants to purchase redeemable convertible preferred stock	25,107
Total	23,412,445

9. Commitments and contingencies

Leases

In January 2011, the Company entered into a sublease for its facility in Chelsea, Massachusetts. The sublease is with Alkermes, a related party (Note 10). The sublease term ends in December 2015. The sublease includes a free rent period, and the rent expense is being recognized on a straight-line basis over the sublease term. The sublease agreement provides for two five-year extensions upon the completion of the sublease term. For each extension period, the economic terms of the sublease will be determined by a process set forth in the sublease, and we will be required to provide a letter of credit in an amount equal to the full five-year lease obligation for each extension period.

As of September 30, 2014, the future minimum lease payments under the non-cancelable operating lease are as follows:

Year ending December 31,	
2014 (3 months)	$181
2015	722
Total	$903

Rent expense for the nine months ended September 30, 2013 and 2014 and for the period from June 17, 2009 (Inception) to September 30, 2014, was $502, $502 and $2,512, respectively

License agreement

The Company has a license agreement to a portfolio of patents from the Massachusetts Institute of Technology (MIT). Pursuant to the terms of the license agreement, the Company agreed to make minimum annual payments to the university. The minimum annual payments are $100 for each year starting upon the assignment of the license in 2010 and ending when the patents expire in 2017. The Company is obligated to pay royalties on the commercial sale of such licensed product through the end of 2017 or when the patents expire. The Company has included license expense as a component of research and development expense in the amounts of $75, $75 and $375 for the nine months ended September 30, 2013 and 2014 and for the period from June 17, 2009 (Inception) to September 30, 2014, respectively.

Contingencies

The Company has certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues a reserve for contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. There were no contingent liabilities accrued as of December 31, 2013 or September 30, 2014.

10. Convertible notes

On December 19, 2012, the Company issued convertible notes (the Notes) to the Preferred Stock investors for $9,000. These Notes held a 6% annual interest rate and were due and payable by the Company on demand by election of 66% of the holders of the Notes (the Majority Note Holders) at any time after December 18, 2013, unless converted to shares of the Company's stock prior to such date. Under the terms of the Notes, the principal and unpaid accrued interest of the Notes would automatically convert upon the occurrence of the Company's next Qualified Financing, one that involves at least one bona fide venture capital or institutional investor who is not a stockholder of the Company and results in at least $10,000 in aggregate gross proceeds. Upon written election of the Majority Note Holders, a financing not meeting such criteria would also qualify as a Qualified Financing.

On September 3, 2013, the Company completed the Series B Preferred Stock financing, which constituted a Qualified Financing, and the principal and unpaid accrued interest of the Notes automatically converted to shares of Series B Preferred Stock at a conversion price equal to 80% of the price paid per share in the financing.

The Company concluded that the feature which provided for the settlement of the Notes in shares of the Company's stock was an embedded derivative as it was not clearly and closely related to the debt host, which was the Notes. As a result, the Company bifurcated the embedded derivative and calculated its fair value at issuance to be $1,630. The value of the derivative and accrued interest were included in the total value of the Notes on the balance sheet at December 31, 2012. For the nine months ended September 30, 2013 and 2014, and for the period from June 17, 2009 (Inception) to September 30, 2014, the Company recorded a change in the fair value of the embedded derivative of $682, $0, and $720, respectively. These changes have been recorded as a component of interest expense in each respective period.

The conversion of the Notes into Series B Preferred Stock was treated as an extinguishment of the Notes and embedded derivative. The Notes and embedded derivative were removed at their carrying amounts, after a final adjustment to fair value on September 3, 2013. The shares of Series B Preferred Stock issued upon conversion of the Notes were recorded at fair value. The difference between the carrying amount of the Notes and embedded derivative and the fair value of Series B Preferred Stock issued of $534 was recorded as a loss on the extinguishment of the Notes.

11. Alkermes agreement

On December 27, 2010, the Company entered into the Alkermes Agreement, in which the Company licensed or acquired from Alkermes certain pulmonary development programs and INDs, underlying intellectual property and laboratory equipment associated with the pulmonary business of Alkermes. The assets acquired includes (i) patents, patent applications and related know-how and documentation; (ii) a formulation of inhaled L-dopa; (iii) several other pulmonary development programs and INDs, which are part of the platform device and formulation IP; (iv) instruments, laboratory equipment and apparatus; and (v) inhalers, inhaler molds, tools, and the associated assembled equipment. In addition, the Company signed the sublease for the facility where the Alkermes operations were housed in Chelsea, Massachusetts. The Company considered these programs, intellectual property and laboratory equipment to be an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors and participants. These items were considered by the Company to be inputs and processes that could be managed as a business by a market participant and was therefore accounted for as a business combination.

Under the terms of the Alkermes Agreement, the Company will also pay to Alkermes royalties for each licensed product as follows: (i) for all licensed products sold by the Company, the Company will pay Alkermes a mid-single digit percentage of net sales of such licensed products and (ii) for all licensed products sold by a Company collaboration partner, the

Company will pay Alkermes the lower of a mid-single digit percentage of net sales of such licensed products in a given calendar year or a percentage in the low-to-mid-double digits of all collaboration partner revenue received in such calendar year. Notwithstanding the foregoing, in no event shall the royalty paid be less than a low-single digit percentage of net sales of a licensed product in any calendar year.

12. Defined contribution plan

The Company has a 401(k) defined contribution plan (the 401(k) Plan) for substantially all of its employees. Eligible employees may make pretax contributions to the 401(k) Plan up to statutory limits. At the election of the Board of Directors, the Company may elect to match employee contributions, but did not as of December 31, 2013 and September 30, 2014 or for the period from June 17, 2009 (Inception) to September 30, 2014.

13. Revenue

In 2011, the Company received a $313 grant to fund research and development services from the Michael J. Fox Foundation for Parkinson's Research (MJFF). Revenues recognized under this award have been recorded as service revenue during the nine months ended September 30, 2013. There were no revenues for the nine months ended September 30, 2014.

The Company recognized additional revenues under arrangements to perform manufacturing services of $730 for the period from June 17, 2009 (Inception) to September 30, 2014, respectively.

14. Other material arrangements

In June 2013, the Company received a new award from MJFF for $1,000. Within the terms of the award, a repayment provision will require the Company to return payment to MJFF for the $1,000 of research and development funding received upon attaining specific levels of future product sales, or if the Company elects to suspend or cancel further product development.

The award was determined to be a financing arrangement in substance and has been recorded as a non- current monetary liability as of December 31, 2013 and September 30, 2014. The Company recognizes the liability when cash is received from MJFF upon completion of predetermined milestones. As of September 30, 2014, a total of $1,000 has been received and recognized as an other long-term liability.

15. Net loss per share

Because the Company has reported a net loss for all periods presented, diluted net loss per common share is the same as basic net loss per common share.

The following potentially dilutive securities outstanding, prior to the use of the treasury stock method or if- converted method, have been excluded from the computation of diluted weighted-average shares outstanding, because such securities had an antidilutive impact due to the losses reported:

	As of September 30,	
	2013	2014
Options to purchase common stock	919,270	3,389,168
Conversion of redeemable convertible preferred stock	13,536,671	17,548,935
Unvested restricted stock	288,143	112,290
Warrants to purchase redeemable convertible preferred stock	—	25,107
Total	14,744,084	21,075,500

16. Senior secured credit facility

On March 21, 2014, the Company entered into a Loan and Security Agreement (the senior secured credit facility) with Oxford Finance LLC and Silicon Valley Bank (the Lenders) and made an initial draw of $5,000. The initial draw will require monthly amortization payments commencing on May 1, 2015. A second draw of up to $15,000 was available to the Company through September 30, 2014, subject to the satisfaction of certain conditions, including a determination by the Board of Directors to proceed with a CVT-301 Phase 3 clinical trial. The second draw was not elected to be drawn. Interest on the initial draw will accrue at the rate of 7.95% per annum, payable monthly. All outstanding principal, plus a 6% final interest payment, will be due and payable on October 1, 2017. The senior secured credit facility draws are subject to a prepayment fee of 3% in the first year, 2% in the second year and 1% in the third year. In conjunction with the senior secured credit facility, the Company incurred issuance costs of $211.

In connection with the initial $5,000 draw, the Company issued to the Lenders warrants to purchase 106,383 shares of Series B Preferred Stock at an exercise price of $1.41 per share. The warrants expire in March 2024. If the Company makes the second draw under the senior secured credit facility, the Lenders will receive a proportionate amount of additional warrants.

Future principal payments on the initial draw are as follows:

Year ending December 31,	
2015	$1,238
2016	1,984
2017	1,778
Total debt principal payments	$5,000

Long-term debt, net as of September 30, 2014 is as follows:

Total debt principal payments	$5,000
Less current portion of long-term debt, net	(736)
Plus accrued final interest payments	56
Less unamortized discount	(196)
Total long-term debt, net	$4,124

17. Subsequent events

The Company considers events or transactions that occur after the balance sheet date, but prior to the issuance of the financial statements, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through the date these financial statements were issued.

Sale of Company

On October 22, 2014, the Company was acquired by a wholly-owned subsidiary (Merger Sub) of Acorda in accordance with the Agreement and Plan of Merger, dated as of September 24, 2014 (the Merger Agreement), by and among Acorda, Merger Sub, the Company and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the securityholder’s representative (SRS). Pursuant to the terms of the Merger Agreement, Merger Sub has merged with and into the Company, which is the surviving corporation in the Merger and which is continuing as a wholly-owned subsidiary of Acorda under the Civitas name. Pursuant to the terms of the Merger Agreement, all outstanding shares of the Company’s common stock and preferred stock, options to purchase shares of the Company’s common stock and warrants to purchase shares of the Company’s preferred stock, other than shares of the Company’s common stock and the Company’s preferred stock held by the Company (which were cancelled as a result of the Merger) were converted into the right to receive $525,000 in cash in the aggregate, without interest, less (i) $5,300 due and payable under the Company’s existing secured loan facility, consisting of $5,000 in principal and $300 in prepayment fees, (ii) $30,000 due and payable to Alkermes in connection with the exercise by the Company of its option to purchase manufacturing facility equipment from Alkermes and (iii) a portion of the Company’s transaction expenses.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On October 22, 2014, Acorda Therapeutics, Inc. ("Acorda") completed its acquisition of Civitas Therapeutics, Inc. ("Civitas") and obtained global rights to CVT-301, a Phase 3 treatment candidate for OFF episodes of Parkinson's disease ("PD"). OFF episodes are characterized by a re-emergence of PD symptoms such as tremor, muscle stiffness and impaired ability to move. CVT-301 is a novel, self-administered inhaled therapy designed to provide rapid, reliable delivery of a precise dose of levodopa (L-dopa) through the lungs to return people with PD to an ON state. An ON state is when a patient's symptoms are adequately controlled, allowing people with PD to more readily perform daily activities. The standard of care for the treatment of PD symptoms is oral L-dopa. Oral dosing of L-dopa is associated with wide variability in the timing and amount of L-dopa absorption into the bloodstream, leading to the unreliable control of symptoms resulting in the emergence of OFF episodes. These OFF episodes, which increase in frequency and severity during the course of the disease, are experienced by a majority of PD patients and are considered one of the greatest unmet medical needs facing PD patients.

The acquisition also included rights to the proprietary ARCUS ® pulmonary delivery technology, and a manufacturing facility with commercial-scale capabilities based in Chelsea, MA.

In accordance with the Agreement and Plan of Merger, dated as of September 24, 2014, (the "Merger Agreement"), by and among Acorda, Five A Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Acorda ("Merger Sub"), Civitas and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the securityholder's representative ("SRS"), Merger Sub has merged with and into Civitas, which is the surviving corporation in the Merger and which is continuing as a wholly-owned subsidiary of Acorda under the Civitas name. Pursuant to the terms of the Merger Agreement, all outstanding shares of Civitas common stock and Civitas preferred stock, options to purchase shares of Civitas common stock and warrants to purchase shares of Civitas preferred stock, other than shares of Civitas common stock and Civitas preferred stock held by Civitas (which were cancelled as a result of the Merger) were converted into the right to receive $525.0 million in cash in the aggregate, without interest, less (i) $5.3 million due and payable under Civitas' existing secured loan facility, consisting of $5.0 million in principal and $0.3 million in prepayment fees, (ii) $30.0 million due and payable to Alkermes, Inc. ("Alkermes") in connection with the exercise by Civitas of its option to purchase manufacturing facility equipment from Alkermes and (iii) a portion of Civitas' transaction expenses. Also pursuant to the Merger Agreement, upon consummation of the Merger, $39.375 million of the aggregate consideration was deposited into escrow to secure the indemnification obligations of Civitas and Civitas' securityholders, and an additional $0.5 million of the aggregate consideration was deposited with SRS for reimbursements payable to SRS under the terms of the Merger Agreement. Acorda also paid approximately $4.5 million in Civitas transactions costs associated with this acquisition at closing.

The aggregate consideration for acquisition accounting, including extinguishment of Civitas' debt approximated $530 million, calculated as follows (in thousands):

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

The Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2014 gives effect to the acquisition and related transactions as if they had been completed on September 30, 2014. The Unaudited Pro Forma Condensed Combined Statements of Operations for the year ended December 31, 2013 and for the nine months ended September 30, 2014 give effect to the acquisition and related transactions as if they had occurred on January 1, 2013.

The Unaudited Pro Forma Condensed Combined Financial Statements, referred to as the "Unaudited Pro Forma Financial Statements," were derived from and should be read in conjunction with the following:

- Consolidated Financial Statements of Acorda as of and for the year ended December 31, 2013 and the related notes included in Acorda's Annual Report on Form 10-K for the year ended December 31, 2013;
- Consolidated Financial Statements of Acorda as of and for the nine months ended September 30, 2014 and the related notes included in Acorda's Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2014;
- Audited Consolidated Financial Statements of Civitas as of and for the years ended December 31, 2013 and 2012 and for the period from June 17, 2009 (Inception) to December 31, 2013 and the related notes included as Exhibit 99.1 to this current report on Form 8-K/A; and
- Unaudited Consolidated Financial Statements of Civitas as of September 30, 2014 and December 31, 2013, for the nine-month periods ended September 30, 2014 and 2013 and for the period from June 17, 2009 (Inception) to September 30, 2014 and the related notes included as Exhibit 99.2 to this current report on Form 8-K/A.

Acorda has been treated as the acquirer for accounting purposes. The allocation of the purchase price was based upon the estimated fair value of the assets acquired and liabilities assumed.

The Unaudited Pro Forma Financial Statements have been prepared in a manner consistent with Acorda's accounting policies. The unaudited pro forma adjustments were based on certain assumptions and estimates that Acorda believes are reasonable. Pro forma adjustments have been included only to the extent adjustments are directly attributable to the transaction, and appropriate information is known, factually supportable and reasonably available to Acorda. There were no transactions between Acorda and Civitas during the periods presented in the Unaudited Pro Forma Financial Statements that needed to be eliminated. The accompanying Unaudited Pro Forma Financial Statements are presented in accordance with Article 11 of Regulation S-X.

The Unaudited Pro Forma Financial Statements have been prepared using the acquisition method of accounting under generally accepted accounting principles in the U.S. ("U.S. GAAP"). Under the acquisition method of accounting, the purchase price is allocated to

underlying assets acquired and liabilities assumed based on their respective fair market values, with any excess purchase price allocated to goodwill. The pro forma purchase price allocation has been derived from estimates of the fair market value of the tangible and intangible assets and liabilities of Civitas based upon management's estimates using established valuation techniques. Acorda management's judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact Acorda's results of operations. The total purchase price has been allocated on a preliminary basis to identifiable assets acquired and liabilities assumed based upon valuation procedures performed to date. This allocation is subject to change pending a final analysis of the total purchase price paid, and the estimated fair value of the assets acquired and liabilities assumed. The differences between the initial and final allocation of purchase price could be material. Acorda will finalize the purchase price allocation as soon as practicable within the measurement period, but in no event later than one year following the acquisition date.

The Unaudited Pro Forma Financial Statements are not necessarily indicative of what the combined company's financial position or results of operations actually would have been had the merger been completed as of the dates indicated. In addition, the Unaudited Pro Forma Financial Statements do not purport to project the future financial position or operating results of the combined company. Accordingly, the Unaudited Pro Forma Financial Statements do not reflect any cost savings or other synergies that the combined company may achieve as a result of the merger or the potential costs to integrate the operations of Acorda and Civitas or the costs necessary to achieve these cost savings and other synergies. The effects of the foregoing items may materially impact the Unaudited Pro Forma Financial Statements.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF SEPTEMBER 30, 2014

	Acorda	Civitas	Pro Forma Adjustments (See Note 4)		Pro Forma Combined
			(In thousands)		
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents, restricted cash and short-term investments	$ 766,635	$ 59,174	$(529,526)	a	$ 296,283
Accounts receivable	24,792	—	—		24,792
Prepaid expenses	9,000	—	—		9,000
Finished goods inventory held by the Company	26,645	—	—		26,645
Finished goods inventory held by the others	570	—	—		570
Deferred tax asset	5,873	—	—		5,873
Other current assets	10,374	938	(13)	h	11,299
Total current assets	843,889	60,112	(529,539)		374,462
Property and equipment	17,089	3,858	24,055	b	45,002
Goodwill	—	550	178,422	c	178,972
Deferred tax asset	84,885	—	—		84,885
Intangible assets	16,865	7,732	413,268	d	437,865
Deferred expenses	—	75	(75)	h	—
Non-current portion of deferred cost of license revenue	3,698	—	—		3,698
Restricted cash	—	1,002	—		1,002
Other assets	6,341	—	—		6,341
Total assets	$ 972,767	$ 73,329	$ 86,131		$1,132,227
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Accounts payable	$ 20,507	$ 2,153	$ —		$ 22,660
Accrued expenses and other current liabilities	39,785	5,348	2,740	e	47,840
			(33)	h	
Deferred product revenue—Zanaflex	29,515	—	—		29,515
Current portion of deferred rent	—	52	(52)	f	—
Deferred collaborative revenue	—	—	—		—
Current portion of deferred license revenue	9,057	—	—		9,057
Current portion of revenue interest liability	913	—	—		913
Long-term obligations—current portion	—	736	(736)	h	—
Current portion of convertible notes payable	1,144	—	—		1,144
Total current liabilities	100,921	8,289	1,919		111,129
Convertible senior notes	285,825	—	—		285,825
Non-current portion of deferred license revenue	52,835	—	—		52,835
Non-current portion of revenue interest liability	14	—	—		14
Non-current portion of convertible notes payable	2,159	—	—		2,159
Warrants to purchase redeemable convertible preferred stock	—	485	(485)	g	—
Long-term obligations, net of current portion	8,100	4,124	(4,124)	h	8,100
Deferred rent	—	13	(13)	f	—
Contingent consideration	—	44,076	6,324	i	50,400
Deferred taxes	—	154	100,438	j	100,592
Other non-current liabilities	—	1,000	—		1,000
Total liabilities	449,854	58,141	104,059		612,054
Series A Preferred stock	—	35,807	(35,807)	k	—
Series B Preferred stock	—	44,010	(44,010)	k	—
Series C Preferred stock	—	55,638	(55,638)	k	—
Stockholders' equity:					
Common Stock	41	2	(2)	k	41
Treasury stock	(329)	—	—		(329)
Additional paid-in capital	743,776	—	—		743,776
Accumulated deficit	(220,741)	(120,269)	120,269	k	(223,481)
	—	—	(2,740)	e	
Accumulated other comprehensive income	166	—	—		166
Total stockholders' equity	522,913	15,188	(17,928)		520,173
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 972,767	$ 73,329	$ 86,131		$1,132,227

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements, which are an integral part of these statements

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Acorda	Civitas	Pro Forma Adjustments (See Note 4)		Pro Forma Combined
	(In thousands, except per share data)				
Revenues:					
Net product revenues	$310,317	$ —	$ —		$310,317
Service revenue	—	53	—		53
Royalty revenues	17,056	—	—		17,056
License revenues	9,057	—	—		9,057
Total net revenues	336,430	53	—		336,483
Costs and expenses:					
Cost of sales	66,009	—			66,009
Cost of milestone and license revenue	634	—	—		634
Research and development	53,877	15,526	2,918	1	72,321
Selling, general and administrative	185,545	4,812	—		190,357
Remeasurement of contingent consideration	—	5,255	—		5,255
Amortization of purchased intangible	—	193	—		193
Total operating expenses	306,065	25,786	2,918		334,769
Operating income (loss)	30,365	(25,733)	(2,918)		1,714
Other expense (net):					
Interest and amortization of debt discount expense	(2,170)	(2,141)	—		(4,311)
Loss on extinguishment of convertible notes	—	(534)	—		(534)
Interest income	668	—	—		668
Other income (expense)	—	10	—		10
Total other expense (net)	(1,502)	(2,665)	—		(4,167)
Income (loss) before income taxes	28,863	(28,398)	(2,918)		(2,453)
Benefit from (provision for) income taxes	(12,422)	(49)	13,550	o	1,079
Net income (loss)	$ 16,441	$(28,447)	$10,632		$ (1,374)
Earnings (loss) per share					
Basic	$ 0.41				$ (0.03)
Diluted	$ 0.39				$ (0.03)
Weighted average common shares outstanding:					
Basic	40,208				40,208
Diluted	41,682				40,208

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements, which are an integral part of these statements.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

	Acorda	Civitas	Pro Forma Adjustments (See Note 4)		Pro Forma Combined
	(In thousands, except per share data)				
Revenues:					
Net product revenues	$262,662	$ —	$ —		$262,662
Service revenue	—	—	—		—
Royalty revenues	14,153	—	—		14,153
License revenues	6,793	—	—		6,793
Total net revenues	283,608	—	—		283,608
Costs and expenses:			—		
Cost of sales	55,004	—	—		55,004
Cost of milestone and license revenue	476	—	—		476
Research and development	47,548	18,162	2,157	l	67,867
Selling, general and administrative	145,357	10,681	(2,656)	m	153,382
Remeasurement of contingent consideration	—	23,527	—		23,527
Amortization of purchased intangible	—	144	—		144
Total operating expenses	248,385	52,514	(499)		300,400
Operating income	35,223	(52,514)	499		(16,792)
Other expense (net):					
Interest and amortization of debt discount expense	(5,116)	(329)	329	n	(5,116)
Interest income	596	—	—		596
Other income (expense)	—	(346)	—		(346)
Total other expense (net)	(4,520)	(675)	329		(4,866)
Income (loss) before income taxes	30,703	(53,189)	828		(21,658)
Benefit from (provision for) income taxes	(13,361)	(37)	23,076	o	9,678
Net income (loss)	$ 17,342	$(53,226)	$23,904		$ (11,980)
Earnings (loss) per share:					
Basic	$ 0.42				$ (0.29)
Diluted	$ 0.41				$ (0.29)
Weighted average common shares outstanding:					
Basic	41,022				41,022
Diluted	42,346				41,022

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements, which are an integral part of these statements.

NOTE 1. Description of Transaction

On October 22, 2014, Acorda Therapeutics, Inc., a Delaware corporation ("Acorda" or the "Company") completed its acquisition of Civitas Therapeutics, Inc., a Delaware corporation ("Civitas") in accordance with the Agreement and Plan of Merger, dated as of September 24, 2014 (the "Merger Agreement"), by and among Acorda, Five A Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Acorda (" Merger Sub"), Civitas and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the securityholder's representative ("SRS"). In accordance with the Merger Agreement, Merger Sub has merged with and into Civitas, which is the surviving corporation in the Merger and which is continuing as a wholly-owned subsidiary of Acorda under the Civitas name. Pursuant to the terms of the Merger Agreement, all outstanding shares of Civitas common stock and Civitas preferred stock, options to purchase shares of Civitas common stock and warrants to purchase shares of Civitas preferred stock, other than shares of Civitas common stock and Civitas preferred stock held by Civitas (which were cancelled as a result of the Merger) were converted into the right to receive $525.0 million in cash in the aggregate, without interest, less (i) $5.3 million due and payable under Civitas' existing secured loan facility, consisting of $5.0 million in principal and $0.3 million in prepayment fees, (ii) $30.0 million due and payable to Alkermes, Inc. ("Alkermes") in connection with the exercise by Civitas of its option to purchase manufacturing facility equipment from Alkermes and (iii) a portion of Civitas' transaction expenses. Also pursuant to the terms of the Merger Agreement, upon consummation of the Merger, $39.375 million of the aggregate consideration was deposited into escrow to secure the indemnification obligations of Civitas and Civitas' securityholders, and an additional $0.5 million of the aggregate consideration was deposited with SRS for reimbursements payable to SRS under the terms of the Merger Agreement. Acorda also paid approximately $4.5 million in Civitas transactions costs associated with this acquisition at closing.

NOTE 2. Basis of Presentation

These Unaudited Pro Forma Financial Statements were prepared using the acquisition method of accounting in accordance with Financial Accounting Standards Board's Accounting Standards Codification (which is referred to as "ASC") 805, *Business Combinations* , and use the fair value concepts defined in ASC 820, *Fair Value Measurements and Disclosures* . Acorda is considered to be the acquirer. ASC 805 requires, among other things, that identifiable assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The pro forma adjustments reflected in the accompanying Unaudited Pro Forma Condensed Combined Financial Statements are based on Acorda's preliminary evaluation and review of the assets acquired and liabilities assumed. Upon finalization of the valuation, the components and allocation of the purchase price may change as those evaluations and reviews are completed.

Under ASC 805, merger-related transaction costs (such as advisory, legal, valuation and other professional fees) are expensed in the periods in which the costs are incurred. Total estimated merger-related transaction costs, including advisory, legal, regulatory and valuation costs and expected to be incurred by Acorda are as follows (*in thousands*):

	Acorda	Civitas	Total
Total transaction costs	$ 7,248	$9,049	$16,297
Amount expensed as of September 30, 2014	(2,355)	(301)	(2,656)
Incurred after September 30, 2014	$ 4,893	$8,748	$13,641

Transaction costs to be incurred by Acorda are reflected in the Unaudited Pro Forma Condensed Combined Balance Sheet as an increase in accumulated deficit and unpaid costs are reflected as an increase in accrued liabilities. The remaining transaction costs to be incurred by Civitas are included in the liabilities assumed in connection with the merger. All transaction costs have been excluded from the Unaudited Pro Forma Condensed Combined Statement of Operations as they are non-recurring in nature. There were no transactions between Acorda and Civitas that need to be eliminated.

NOTE 3. Estimate of Assets to be Acquired and Liabilities to be Assumed

The allocation of the preliminary purchase price to the fair values of assets acquired and liabilities assumed reflects the estimated fair values of Civitas' assets and liabilities as of the acquisition date. The final allocation of the purchase price could differ materially from the preliminary allocation used for the pro forma financial statements.

The following is a preliminary allocation of the purchase price as of September 30, 2014 (*in thousands*):

Current assets	$ 60,099
Property and equipment	27,913
Intangible assets	421,000
Other noncurrent assets	1,002
Current liabilities	(7,468)
Contingent consideration	(50,400)
Deferred taxes	(100,592)
Other non-current liabilities	(1,000)
Fair value of assets and liabilities acquired	350,554
Goodwill	178,972
Total Purchase Price	529,526
Amount paid to extinguish long-term debt	(5,325)
Cash Paid	$ 524,201

NOTE 4. Pro Forma Adjustments

Adjustments included in the columns under the heading “Pro Forma Adjustments” represent the following:

(a) To adjust cash for amounts paid to Civitas and its creditors totaling approximately $529,526,000.

(b) To adjust property and equipment as a result of acquisition accounting as follows (*in thousands*):

	Historical Carrying Value	Fair Value	Adjustment	Estimated Life
Property and equipment	$ 3,858	$ 27,913	$ 24,055	8 years

(c) Goodwill is calculated as the excess of the purchase price consideration transferred over the fair value of the underlying assets acquired and liabilities assumed. The pro forma adjustment to goodwill also includes the elimination of goodwill on Civitas’ historical financial statements. Goodwill was adjusted as follows as a result of the acquisition (*in thousands*):

	Historical Carrying Value	Fair Value	Adjustment
Assets acquired in excess of purchase price	$ 550	$178,972	$ 178,422

(d) As of the acquisition date, identifiable intangible assets, were measured at fair value primarily using various “income approaches,” which required a forecast of expected future cash flows, for the use of a multi-period excess earnings method. Intangible assets primarily relate to in process research and development related to Arcus technology and CVT-301 technology.

To record the difference between the preliminary fair value of intangible assets and the historical carrying value of Civitas’s intangible assets as follows (*in thousands*):

	Historical Carrying Value	Fair Value	Adjustment	Estimated Life
Intangible assets	$ 7,732	$421,000	$ 413,268	Indefinite

(e) To record Acorda’s estimated transaction costs for advisory, legal, regulatory and valuation costs totaling $4,893,000, less deferred income taxes of $2,153,000. Civitas’ estimated transaction costs were paid at closing.

(f) To eliminate deferred rent as follows (*in thousands*):

Current	$(52)
Noncurrent	(13)
	$(65)

(g) To eliminate the warrants to purchase redeemable convertible preferred stock totaling $485,000.

(h) To adjust for the repayment of Civitas' outstanding long-term obligations – current portion of $736,000 and long-term obligations, net of current portion, of $4,124,000, and related accrued interest of $33,000, and current and non-current debt issuance costs of $13,000 and $75,000, respectively.

(i) To adjust contingent consideration related to the potential milestone payments to fair value (*in thousands*):

	Historical Carrying Value	**Fair Value**	**Adjustment**
Contingent consideration	$44,076	$ 50,400	$ 6,324

(j) No adjustments to the tax basis of Civitas' assets and liabilities are expected as a result of the merger. Accordingly, deferred income taxes at September 30, 2014 have been adjusted by approximately $100,438,000 for temporary differences caused by book and tax differences after the allocation of the pro forma purchase price using Acorda's statutory income tax rate (including state taxes).

(k) To eliminate the redeemable convertible preferred stock and stockholders' equity associated with assets acquired and liabilities assumed (*in thousands*):

Series A Preferred stock	$ 35,807
Series B Preferred stock	44,010
Series C Preferred stock	55,638
Common Stock	2
Accumulated deficit	(120,269)
	$ 15,188

(l) Property and equipment will be depreciated over an estimated remaining useful life of eight years. The estimated remaining useful life was based on the useful life for similar assets adjusted for the estimated age of Civitas's equipment.

The Company has not completed its analysis of the intangible assets. The CVT-301 technology has not yet received FDA approval and has not been placed into production. Such analysis is expected to be finalized in the fourth quarter of 2015, but in no event later than one year following the acquisition date.

To adjust depreciation expense as follows for the year ended December 31, 2013 and for the nine months ended September 30, 2014 (*in thousands*):

	Year ended December 31, 2013	Nine months ended September 30, 2014
Depreciation of acquired equipment	$ 2,918	$ 2,157

The preliminary estimated useful lives and fair value of equipment acquired were determined in accordance with procedures described above. With other assumptions held constant, a 10% increase in the fair value adjustment for property and equipment and intangible assets as calculated would increase annual pro forma depreciation expense by approximately $349,000. With other assumptions held constant, a decrease of one year in the estimated remaining average useful lives of property and equipment would increase pro forma depreciation expense by approximately $498,000.

(m) To eliminate non-recurring transaction costs incurred during the nine months ended September 30, 2014 as follows (*in thousands*):

Acorda	$2,355
Civitas	301
	$2,656

(n) Civitas entered into a Loan and Security Agreement with Oxford Finance LLC and Silicon Valley Bank on March 21, 2014. To eliminate historical interest expense of $329,000 for the nine months ended September 30, 2014 related to Civitas's debt that was repaid at closing.

(o) To record the income tax benefit of Civitas' net loss reflecting Acorda's statutory tax rate (including state income taxes) of approximately 44.0%.