Adamas Pharmaceuticals Inc
Form 10-Q
November 12, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from to

Commission File No. 001-36399

ADAMAS PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	42-1560076 (I.R.S. Employer Identification Number)

1900 Powell Street, Suite 750 Emeryville, CA (Address of Principal Executive Offices)	94608 (Zip Code)

(510) 450-3500

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

Number of shares outstanding of the issuer's common stock, par value $0.001 per share, as of November 9, 2015 was 18,422,074.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ADAMAS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands, except share and per share data)

	September 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$ 37,118	$ 61,446
Available-for-sale securities	66,330	60,912
Accounts receivable	936	524
Prepaid expenses and other current assets	1,070	645
Total current assets	105,454	123,527
Property and equipment, net	2,141	1,228
Available-for-sale securities, non-current	29,145	36,364
Other assets	38	70
Total assets	$ 136,778	$ 161,189
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 2,856	$ 3,685
Accrued liabilities	7,828	8,595
Other current liabilities	272	265
Total current liabilities	10,956	12,545
Non-current liabilities	1,832	1,570
Total liabilities	12,788	14,115
Commitments and Contingencies (Note 7)		
Stockholders' equity		
Common stock, $0.001 par value — 100,000,000 shares authorized, 18,416,369 and 17,551,375 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	23	22
Additional paid-in capital	175,406	157,581

Accumulated other comprehensive income (loss)	22	(180)
Accumulated deficit	(51,461)	(10,349)
Total stockholders' equity	123,990	147,074
Total liabilities and stockholders' equity	$ 136,778	$ 161,189

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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ADAMAS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	$ 768	$ 215	$ 1,392	$ 25,545
Operating expenses				
Research and development	9,960	5,412	26,198	13,343
General and administrative	5,803	4,353	16,568	10,724
Total operating expenses	15,763	9,765	42,766	24,067
Income (loss) from operations	(14,995)	(9,550)	(41,374)	1,478
Interest and other income (expense), net	85	(1)	265	(801)
Income (loss) before income taxes	(14,910)	(9,551)	(41,109)	677
Income tax expense (refund)	(51)	6	3	185
Net income (loss)	$ (14,859)	$ (9,557)	$ (41,112)	$ 492
Net income (loss) attributable to common stockholders:				
Basic	$ (14,859)	$ (9,557)	$ (41,112)	$ 53
Diluted	$ (14,859)	$ (9,557)	$ (41,112)	$ 54
Net income (loss) per share attributable to common stockholders:				
Basic	$ (0.81)	$ (0.57)	$ (2.28)	$ —
Diluted	$ (0.81)	$ (0.57)	$ (2.28)	$ —
Weighted average number of shares used in computing net income (loss) attributable to common stockholders:				
Basic	18,395	16,787	18,001	13,998
Diluted	18,395	16,787	18,001	16,769

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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ADAMAS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$ (14,859)	$ (9,557)	$ (41,112)	$ 492
Unrealized gain on available-for-sale securities	68	—	202	—
Comprehensive income (loss)	$ (14,791)	$ (9,557)	$ (40,910)	$ 492

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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ADAMAS PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income (loss)	$ (41,112)	$ 492
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	306	99
Stock-based compensation	7,205	4,907
Change in preferred stock warrant value	—	983
Net accretion of discounts and amortization of premiums of available-for-sale securities	850	—
Loss on fixed asset disposal	—	80
Changes in assets and liabilities		
Accrued interest of available-for-sale securities	(14)	—
Prepaid expenses and other assets	(393)	(1,077)
Accounts receivable	(412)	9
Accounts payable	(834)	936
Accrued liabilities and other liabilities	(469)	811
Net cash provided by (used in) operating activities	(34,873)	7,240
Cash flows from investing activities		
Purchases of property and equipment	(1,131)	(194)
Purchases of available-for-sale securities	(32,578)	—
Maturities of available-for-sale securities	33,745	—
Net cash provided by (used in) investing activities	36	(194)
Cash flows from financing activities		
Net proceeds from public offerings	9,657	42,632
Proceeds from issuance of common stock upon exercise of stock options	671	250
Proceeds from employee stock purchase plan	181	—
Proceeds from issuance of common and preferred stock upon exercise of warrants	—	1,986
Net cash provided by financing activities	10,509	44,868
Net increase (decrease) in cash and cash equivalents	(24,328)	51,914
Cash and cash equivalents at beginning of period	61,446	85,612
Cash and cash equivalents at end of period	$ 37,118	$ 137,526
Supplemental disclosure		
Cash paid for income taxes	$ 4,691	$ —
Supplemental disclosure of noncash investing and financing activities		
Purchases of property and equipment paid after period end	$ 88	$ 229
Disposal of fully depreciated property and equipment	$ 20	—

Change in unrealized gain on available-for-sale investments	$ 202	—
Liability assumed in noncash stock transaction	$ —	$ 341

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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ADAMAS PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. THE COMPANY

Adamas Pharmaceuticals, Inc. (the "Company") is a specialty pharmaceutical company focused on the development and commercialization of therapeutics targeting chronic disorders of the central nervous systems ("CNS"). The Company achieves this by enhancing the pharmacokinetic profiles of approved drugs to create novel therapeutics for use alone and in fixed-dose combination products. The Company's business strategy is twofold. The Company intends to develop and commercialize its wholly-owned products directly. In addition, the Company may form partnerships with companies that have an already established CNS market presence. The Company is developing its lead wholly-owned product candidate, ADS-5102 (amantadine hydrochloride), for a complication associated with the treatment of Parkinson's disease known as levodopa-induced dyskinesia ("LID") and potentially as a treatment for one or more additional CNS indications. In 2013, the Company successfully completed a Phase 2/3 clinical trial of ADS-5102 for LID. In the third quarter of 2015, the Company completed enrollment in EASE LID, a confirmatory Phase 3 trial of ADS-5102. The Company expects to announce top-line results from EASE LID by the end of the first quarter of 2016. In addition, the Company plans to complete enrollment in EASE LID 3 near year-end 2015. Assuming that the data from our Phase 3 program for ADS-5102 for LID are supportive, the Company anticipates the filing of a New Drug Application ("NDA") with the U.S. Food and Drug Administration ("FDA") for LID in 2016. Further, the Company is exploring the utility of ADS-5102 for the treatment of major symptoms associated with multiple sclerosis ("MS") in patients with walking impairment with the initiation of a Phase 2 clinical program in June 2015.

The Company plans to commercialize ADS-5102 and potentially other wholly-owned product candidates, if approved, by developing a specialty CNS commercial organization including, a sales force to reach high volume prescribing neurologists and movement disorder specialists in the United States, and in other markets through distribution agreements and collaborations with CNS-focused pharmaceutical companies. Through a partnership with Forest Laboratories Holdings Limited ("Forest"), an indirect wholly-owned subsidiary of Allergan plc, the Company's portfolio includes two drugs commercially available in the United States: Namzaric™ (memantine hydrochloride extended-release and donepezil hydrochloride) (formerly MDX-8704) and Namenda XR® (memantine hydrochloride) extended release capsules, launched in May 2015 and June 2013, respectively.

The Company was incorporated in the State of Delaware on November 15, 2000. The Company's headquarters and operations are located in Emeryville, California. The Company has four insignificant subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. The financial statements include all adjustments (consisting only of normal recurring adjustments) that we believe are necessary for a fair presentation of the periods presented. The condensed consolidated balance sheet at December 31, 2014 was derived from the audited consolidated financial statements, but does not include all disclosures required by GAAP. These interim financial results are not necessarily indicative of results to be expected for the full fiscal year or any other future period and should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2014, included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission, or SEC.

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Liquidity and Financial Condition

To date, nearly all of the Company's resources have been dedicated to the research and development of its products, and the Company has not generated any commercial revenue from the sale of its products. The Company does not anticipate the generation of any commercial product revenue until it receives the necessary regulatory approvals to launch one of its products.

Based upon the current status of, and plans for, its product development, the Company believes that the existing cash, cash equivalents, and available-for-sale securities of $132.6 million as of September 30, 2015 will be adequate to satisfy the Company's capital needs through at least the next twelve months. However, the process of developing and commercializing products requires significant research and development, preclinical testing and clinical trials, manufacturing arrangements, as well as regulatory approvals. These activities, together with the Company's general and administrative expenses, are expected to result in significant operating losses until the commercialization of the Company's products or partner collaborations generate sufficient revenue to cover expenses. While the Company had net income during 2014, it has not generated any commercial revenue from sales of its products. Under its license agreement with Forest, the Company received the final milestone payment in 2014, and is not entitled to receive any royalties for sales of Namzaric until mid-2020 and Namenda XR until mid-2018. To achieve sustained profitability, the Company, alone or with others, must successfully develop its product candidates, obtain required regulatory approvals, and successfully manufacture and market its products.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses in the consolidated financial statements and the accompanying notes. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, clinical trial accruals, fair value of assets and liabilities, income taxes, and stock-based compensation. Management bases its estimates on historical experience and on various other market-specific and relevant assumptions that management believes to be reasonable under the circumstances. Actual results may differ from those estimates.

Forward Stock Split

In March 2014, the Board of Directors of the Company and stockholders approved a forward stock split of the Company's common and preferred stock. As a result, common and preferred stock, stock options and warrants to purchase common and preferred stock were adjusted in the ratio of 2:1, effective March 24, 2014. All common and per share amounts presented in these condensed consolidated financial statements for all periods have been

retroactively adjusted to reflect the 2-for-1 forward stock split. No fractional shares were issued.

Revenue Recognition

The Company recognizes revenue when all four of the following criteria have been met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the fee is fixed or determinable and (iv) collectability is reasonably assured. Revenue under license and collaboration arrangements is recognized based on the performance requirements of the contract. Determinations of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered are based on management's judgments regarding the fixed nature of the fees charged for deliverables and the collectability of those fees. Should changes in conditions cause management to determine that these criteria are not met for any new or modified transactions, revenue recognized could be adversely affected.

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The Company generates revenue from collaboration and license agreements for the development and commercialization of products. Collaboration and license agreements may include non-refundable upfront license fees, partial or complete reimbursement of research and development costs, contingent consideration payments based on the achievement of defined collaboration objectives and royalties on sales of commercialized products. The Company's performance obligations under the collaborations may include the license or transfer of intellectual property rights, obligations to provide research and development services and related materials and obligations to participate on certain development and/or commercialization committees with the collaborators.

On January 1, 2011, the Company adopted an accounting standards update that amends the guidance on accounting for new arrangements, or those materially modified, with multiple deliverables. This guidance eliminates the requirement for objective and reliable evidence of fair value of the undelivered items in order to consider a deliverable a separate unit of accounting. It also changes the allocation method such that the relative-selling-price method must be used to allocate arrangement consideration to the units of accounting in an arrangement. This guidance establishes the following estimation hierarchy that must be used in estimating selling price under the relative-selling-price method: (i) vendor-specific objective evidence of fair value of the deliverable, if it exists, (ii) third-party evidence of selling price, if vendor-specific objective evidence is not available or (iii) vendor's best estimate of selling price, if neither vendor-specific nor third-party evidence is available.

On January 1, 2011, the Company adopted an accounting standards update that provides guidance on revenue recognition using the milestone method. Payments that are contingent upon achievement of a substantive milestone are recognized in their entirety in the period in which the milestone is achieved. Milestones are defined as events that can only be achieved based on the Company's performance and there is substantive uncertainty about whether the event will be achieved at the inception of the arrangement. Events that are contingent only on the passage of time or only on counterparty performance are not considered milestones subject to this guidance. Further, the amounts received must relate solely to prior performance, be reasonable relative to all of the deliverables and payment terms within the agreement and commensurate with the Company's performance to achieve the milestone after commencement of the agreement.

Amounts related to research and development funding are recognized as the related services or activities are performed, in accordance with the contract terms. Payments may be made to or by the Company based on the number of full-time equivalent researchers assigned to the collaboration project and the related research and development expenses incurred.

Clinical Trial Accruals

The Company's clinical trial accruals are based on estimates of patient enrollment and related costs at clinical investigator sites, as well as estimates for the services received and efforts expended pursuant to contracts with multiple research institutions and clinical research organizations ("CROs") that conduct and manage clinical trials on the Company's behalf.

The Company estimates clinical trial expenses based on the services performed pursuant to contracts with research institutions and clinical research organizations that conduct and manage clinical trials on its behalf. In accruing service fees, the Company obtains the reported level of patient enrollment at each site and estimates the time period over which services will be performed and activity expended in each period. If the actual timing of the performance of services or the level of effort varies from the estimate, the Company will adjust the accrual accordingly. Payments made to third parties under these arrangements in advance of the receipt of the related services are recorded as prepaid expenses until the services are rendered.

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Research and Development

Research and development ("R&D") expenses include salaries, contractor and consultant fees, external clinical trial expenses performed by contract research organizations ("CRO"), licensing fees, acquired intellectual property with no alternative future use, and facility and administrative expense allocations. In addition, we fund R&D at research institutions under agreements that are generally cancelable at our option. Research costs typically consist of applied research and preclinical and toxicology work. Pharmaceutical manufacturing development costs consist of product formulation, chemical analysis, and the transfer and scale-up of manufacturing at our contract manufacturers. Clinical development costs include the costs of Phase 1, Phase 2, and Phase 3 clinical trials. These costs are a significant component of our research and development expenses.

We accrue costs for clinical trial activities performed by contract research organizations and other third parties based upon the estimated amount of work completed on each study as provided by the CRO. These estimates are reviewed for reasonableness by our internal clinical personnel, and we aim to match the accrual to actual services performed by the organizations as determined by patient enrollment levels and related activities. We monitor patient enrollment levels and related activities using available information; however, if we underestimate activity levels associated with various studies at a given point in time, we could be required to record significant additional R&D expenses in future periods when the actual activity level becomes known. We charge all such costs to R&D expenses. Non-refundable advance payments are capitalized and expensed as the related goods are delivered or services are performed.

Basic and Diluted Net Income Per Share Attributable to Common Stockholders

Basic net income per share attributable to common stockholders is based upon the weighted average number of common shares outstanding during the period. Diluted net income per share attributable to common stockholders is based upon the weighted average number of common shares outstanding and dilutive common stock equivalents outstanding during the period. Common stock equivalents are options granted under our stock awards plans and are calculated under the treasury stock method. Common equivalent shares from unexercised stock options and convertible preferred stock warrants are excluded from the computation when there is a loss as their effect is anti-dilutive, or if the exercise price of such options is greater than the average market price of the stock for the period.

Prior to April 10, 2014, the Company calculated its basic and diluted net income (loss) per share attributable to common stockholders in conformity with the two-class method required for companies with participating securities. Under the two-class method, the Company determined whether it had net income attributable to common stockholders, which includes the results of operations less current period convertible preferred stock non-cumulative dividends. If it was determined that the Company had net income attributable to common stockholders during a period, the related undistributed earnings were then allocated between common stock and the convertible preferred stock based on the weighted average number of shares outstanding during the period to determine the numerator for the basic net income per share attributable to common stockholders. In computing diluted net income attributable to

common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities to determine the numerator for the diluted net income per share attributable to common stockholders.

Stock-Based Compensation

The Company accounts for stock-based compensation of stock options granted to employees and directors and for employee stock purchase plan shares by estimating the fair value of stock-based awards using the Black-Scholes option-pricing model and amortizing the fair value of the stock-based awards granted over the applicable vesting period. All stock options awards to non-employees are accounted for at the fair value of the consideration received or the fair value of the equity instrument issued, as calculated using the Black-Scholes model. The measurement of nonemployee stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest.

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In order to estimate the value of share-based awards, the Company uses the Black-Scholes model, which requires the use of certain subjective assumptions. The most significant subjective assumptions are management's estimates of the expected volatility and the expected term of the award. In addition, judgment is also required in estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from any of these estimates, stock-based compensation expense and the Company's results of operations could be materially impacted.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. The amendment in this ASU provides guidance on the revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The core principle of this update provides guidance to identify the performance obligations under the contract(s) with a customer and how to allocate the transaction price to the performance obligations in the contract. It further provides guidance to recognize revenue when (or as) the entity satisfies a performance obligation. This standard will replace most existing revenue recognition guidance. On July 9, 2015, the FASB approved a one-year deferral of the effective date of this standard to 2018 for public companies, with an option that would permit companies to adopt the standard as early as the original effective date of 2017. Early adoption prior to the original effective date is not permitted. We have not yet selected a transition method nor have we determined the effect of the standard on our consolidated financial position and results of operations.

3. FAIR VALUE MEASUREMENTS

In accordance with ASC 820-10, Fair Value Measurements and Disclosures, the Company determines the fair value of financial and non-financial assets and liabilities using the fair value hierarchy, which establishes three levels of inputs that may be used to measure fair value, as follows:

- Level 1 inputs which include quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs which include observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability. For available-for-sale securities, the Company reviews trading activity and pricing as of the measurement date. When sufficient quoted pricing for identical securities is not available, the Company uses market pricing and other observable market inputs for similar securities obtained from various third-party data providers. These inputs either represent quoted prices for similar assets in active markets or have been derived from observable market data; and
- Level 3 inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

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The following table represents the fair value hierarchy for the Company's financial assets and liabilities which require fair value measurement on a recurring basis (in thousands):

	Fair Value Measurements at September 30, 2015			
	Total	Level 1	Level 2	Level 3
Assets				
Money market	$ 26,873	$ 26,873	$ —	$ —
Corporate debt	74,749	—	74,749	—
U.S. Treasury notes	16,726	—	16,726	—
Commercial paper	4,000	—	4,000	—
Total	$ 122,348	$ 26,873	$ 95,475	$ —

	Fair Value Measurements at December 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets				
Money market	$ 59,303	$ 59,303	$ —	$ —
Corporate debt	85,311	—	85,311	—
U.S. Treasury notes	11,965	—	11,965	—
Total	$ 156,579	$ 59,303	$ 97,276	$ —

Money market funds are highly liquid investments and are actively traded. The pricing information on these investment instruments are readily available and can be independently validated as of the measurement date. This approach results in the classification of these securities as Level 1 of the fair value hierarchy.

Corporate debt and U.S. Treasury notes are measured at fair value using level 2 inputs. We review trading activity and pricing for these investments as of each measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for similar securities obtained from various third party data providers. These inputs represent quoted prices for similar assets in active markets or these inputs have been derived from observable market data. This approach results in the classification of these securities as Level 2 of the fair value hierarchy.

There were no transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2015.

4. INVESTMENTS

The Company’s investments consist of corporate debt and U.S. Treasury notes classified as available-for-sale securities.

The Company limits the amount of investment exposure as to institution, maturity, and investment type. To mitigate credit risk, the Company invests in investment grade corporate debt and United States Treasury notes. Such securities are reported at fair value, with unrealized gains and losses excluded from earnings and shown separately as a component of accumulated other comprehensive income (loss) within stockholders' equity. Realized gains and losses are reclassified from other comprehensive income (loss) to other income (expense) on the condensed consolidated statements of operations when incurred. The Company may pay a premium or receive a discount upon the purchase of available-for-sale securities. Interest earned and gains realized on available-for-sale securities and amortization of discounts received and accretion of premiums paid on the purchase of available-for-sale securities are included in investment income.

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The following table is a summary of amortized cost, unrealized gain and loss, and the fair value of available-for-sale securities (in thousands):

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments:				
Corporate debt	$ 74,755	$ 24	$ (30)	$ 74,749
U.S. Treasury notes	16,698	28	—	16,726
Commercial paper	4,000	—	—	4,000
Total	$ 95,453	$ 52	$ (30)	$ 95,475
Reported as:				
Short-term investments	$ 66,349	$ 4	$ (23)	$ 66,330
Long-term investments	29,104	48	(7)	29,145
Total	$ 95,453	$ 52	$ (30)	$ 95,475

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments:				
Corporate debt	$ 85,474	$ —	$ (163)	$ 85,311
U.S. Treasury notes	11,982	—	(17)	11,965
Total	$ 97,456	$ —	$ (180)	$ 97,276
Reported as:				
Short-term investments	$ 61,014	$ —	$ (104)	$ 60,910
Long-term investments	36,442	—	(76)	36,366
Total	$ 97,456	$ —	$ (180)	$ 97,276

Short-term and long-term investments includes accrued interest of $0.5 million and $77,000 respectively, as of September 30, 2015. Short-term and long-term investments includes accrued interest of $0.3 million and $0.2 million, respectively, as of December 31, 2014. The Company has not incurred any realized gains or losses on investments for the three and nine months ended September 30, 2015 and 2014. Investments are classified as short-term or long-term depending on the underlying investment's maturity date. Long-term investments have a maturity date range of greater than 12 months and a maximum of 23 months as of September 30, 2015.

5. Collaboration and License Agreements

In November 2012, the Company granted Forest an exclusive license, with right to sublicense, certain of the Company's intellectual property rights relating to human therapeutics containing memantine in the United States. In connection with these rights, Forest markets Namzaric and Namenda XR for the treatment of moderate to severe dementia related to Alzheimer's disease. Pursuant to the agreement, Forest made an upfront payment of $65.0 million. The Company earned and received additional cash payments totaling $95.0 million upon achievement by Forest of certain development and regulatory milestones. In addition, the Company may earn tiered royalty payments based on future net sales of Namzaric and Namenda XR.

The Company identified the following two non-contingent performance deliverables under the license agreement: (i) transfer of intellectual property rights, inclusive of the related technology know-how conveyance ("license and know-how" or "license") and (ii) the obligation to participate on the Joint Development Committee ("JDC"). The Company concluded that the license and the know-how together represent a single deliverable, and therefore the two together have been accounted for as a single unit of accounting. There was no separate consideration identified in the agreement for the deliverables and there was no right of return under the agreement. The Company considered the

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provisions of the multiple-element arrangement guidance in determining whether the deliverables outlined above have standalone value. The transfer of license and know-how has standalone value separate from the obligation to participate on the JDC, as the agreement allows Forest to sublicense its rights to the acquired license to a third party. Further, the Company believes that Forest has research and development expertise with compounds similar to those licensed under the agreement and has the ability to engage other third parties to develop these compounds, allowing Forest to realize the value of the license and know-how without receiving the JDC participation.

The Company developed its best estimates of selling prices ("BESP") for each deliverable in order to allocate the non-contingent arrangement consideration to the two units of accounting. Based on BESP analysis, value assigned to the obligation to participate on the JDC was a negligible amount. Accordingly, the entire upfront license fee of $65.0 million was allocated to the transfer of license and technical know-how. Revenue recognition commenced upon delivery of the license and was recognized on a straight-line basis through the period of the transfer of the know-how. Forest was able to derive value from the license as the know-how was transferred. A straight-line pattern of revenue recognition is only acceptable when a more precise pattern cannot be discerned. The way in which the transfer of know-how occurred did not give rise to a more precise pattern of recognition, and the Company therefore recognized revenue on a straight-line basis over the period of the transfer of the know-how (from November 2012 to February 2013).

In November and December 2013, the Company received a total of $40.0 million in milestone payments under its license agreement with Forest. The milestone payments were for the successful completion of studies that support the planned New Drug Application ("NDA") filing with the FDA for Namzaric by Forest. In May 2014, the Company received an additional $25.0 million milestone payment under the license agreement. This milestone payment was a result of the FDA's acceptance of the NDA for Namzaric. In December 2014, the Company received a final $30.0 million milestone payment in connection with the FDA approval of Namzaric. These amounts have been recorded as revenue when received in the consolidated statements of operations and comprehensive income during 2013 and 2014, respectively.

The Company is entitled to receive royalties on net sales in the United States by Forest, its affiliates, or any of its sublicensees of controlled-release versions of memantine products covered by the terms of the license agreement. Beginning in May 2020, the Company will be entitled to receive royalties in the low double digits to the mid-teens from Forest for sales of Namzaric in the United States and in June 2018, the Company will be entitled to receive royalties in the low to mid-single digits for sales of Namenda XR in the United States. Forest's obligation to pay royalties with respect to fixed-dose memantine-donepezil products, including Namzaric, continues until the later of (i) 15 years after the commercial launch of the first fixed-dose memantine-donepezil product by Forest in the United States or (ii) the expiration of the Orange Book listed patents for which Forest obtained rights from us covering such product. Forest's obligation to pay royalties with respect to Namenda XR continue until the expiration of the Orange Book listed patents covering such products. However, Forest's obligation to pay royalties for any product covered by the license is eliminated in any quarter where there is significant competition from generics.

6. WARRANTS TO PURCHASE COMMON STOCK

In conjunction with various financings between 2002 and 2012, the Company issued warrants to purchase 758,994 shares of convertible preferred stock and 127,780 shares of common stock. The relative fair value of these warrants was determined using the Black-Scholes model and was amortized to interest expense over the term of each loan, unless subsequently modified. In July 2015, warrants to purchase an aggregate of 7,116 shares of common stock were exercised in a cashless exercise, resulting in the issuance of 3,484 shares of common stock. As of September 30, 2015 and December 31, 2014, warrants to purchase zero and 7,116 shares of common stock were outstanding, respectively. As of both September 30, 2015 and December 31, 2014, there were no warrants to purchase convertible preferred stock outstanding.

Prior to the IPO in April 2014, the warrants to purchase convertible preferred stock were classified as a liability and remeasured to fair value each reporting period. The Company had estimated the fair value of these liabilities using

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the Black-Scholes model and assumptions that were based on the individual characteristics of the warrants on the valuation date, as well as the assumptions for expected volatility, expected life, dividends, and risk-free interest rate. Immediately prior to the completion of the Company's IPO in 2014, all of the warrants were either exercised for cash or automatically net exercised for a total issuance of 199,837 shares of common stock, pursuant to the terms of the warrants. Just prior to the exercises, all of the outstanding warrants, covering 220,004 shares, were remeasured using the intrinsic value of the warrant computed as the difference between the $16.00 per share IPO price and the $3.80 per share exercise price of the warrant. The remeasurement of the fair value of these warrants from December 31, 2013 through the date of the conversion to a common stock warrant and following the exercise resulted in a $1.0 million expense recorded to other income (expense), net in the Company's consolidated statements of operations and comprehensive income. The resulting fair value of approximately $27.9 million was reclassified as additional paid-in capital upon completion of the IPO.

7. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company leases approximately 18,500 square feet of office space in Emeryville, California under an operating lease that expires April 30, 2020. The lease provides for periods of escalating rent. The total cash payments over the life of the lease are divided by the total number of months in the lease period and the average rent is charged to expense each month during the lease period.

As of September 30, 2015, future minimum lease payments under a non-cancelable facility operating lease including related office equipment were as follows (in thousands):

	September 30, 2015
Remainder of 2015	$ 159
2016	650
2017	650
2018	660
2019	667
Thereafter	223
Total	$ 3,009

Contingencies

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown, because it involves claims that may be made against the Company in the future, but have not yet been made. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Indemnification

In accordance with the Company's amended and restated certificate of incorporation and amended and restated bylaws, the Company has indemnification obligations to its officers and directors for certain events or occurrences, subject to certain limits, while they are serving in such capacity. There have been no claims to date, and the Company has a directors and officers liability insurance policy that may enable it to recover a portion of any amounts paid for future claims.

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Litigation

Several companies have submitted Abbreviated New Drug Applications, or ANDAs, to the FDA requesting permission to manufacture and market generic versions of Namenda XR, on which the Company is entitled to receive royalties from Forest beginning in June 2018. In the notices, these companies allege that the patents associated with Namenda XR, some of which are owned by Forest or licensed by Forest from Merz Pharma GmbH & Co. KGaA and others of which are owned by the Company and licensed by the Company exclusively to Forest in the United States, are invalid, unenforceable and/or will not be infringed by the companies' manufacture, use, or sale of generic versions of Namenda XR. The Company, Forest, Merz Pharma GmbH & Co. KGaA, and Merz Pharmaceuticals GmbH (together Merz) filed lawsuits in the U.S. District Court for the District of Delaware for infringement of the relevant patents against all of these companies. The parties are collectively seeking judgment that (i) the defendants have infringed the patents at issue, (ii) the effective date of any approval of the defendants' ANDAs shall not be earlier than the expiration date of the last to expire of the relevant patents, including any extensions or exclusivities, (iii) the defendants be enjoined from commercially manufacturing, using, offering for sale, or selling in the United States, or importing into the United States, any products that infringe or induce or contribute to the infringement of the patents at issue prior to the expiration date of the last to expire of the patents, including extensions and exclusivities, and (iv) the Company, Forest, and Merz be awarded monetary relief, in addition to any attorneys' fees, costs, and expenses relating to the actions. The trial is scheduled for February 2016.

We and Forest have entered into a series of settlement agreements. The earliest date on which any of these agreements grants a license to market generic version of Namenda XR is January 31, 2020 or in the alternative, an option to launch an authorized generic version of Namenda XR beginning on January 31, 2021. The litigations remain ongoing with several of the Namenda XR ANDA filers.

Several companies have submitted ANDAs requesting permission to manufacture and market generic versions of Namzaric, on which the Company is entitled to receive royalties from Forest beginning in May 2020. We and Forest have begun to file lawsuits alleging infringement of the relevant patents against Namzaric ANDA filers in the same court and seeking comparable relief as in the Namenda XR case. The court has not set a schedule for these cases.

Because these Namenda XR and Namzaric lawsuits were filed within the requisite 45 day period provided in the U.S. Food, Drug and Cosmetic Act, there are stays preventing FDA approval of the ANDAs for 30 months or until a court decision adverse to the patents. The 30 month stays for these Namenda XR and Namzaric ANDAs will begin to expire in June 2016 and January 2018, respectively.

From time to time, the Company may be party to legal proceedings, investigations, and claims in the ordinary course of its business. Other than the matters described above, the Company is not presently a party to any material legal proceedings.

8. STOCKHOLDERS' EQUITY

Common Stock

The amended and restated certificate of incorporation authorizes the Company to issue 100,000,000 shares of common stock. Common stockholders are entitled to dividends as and when declared by the board of directors, subject to the rights of holders of all classes of stock outstanding having priority rights as to dividends. There have been no dividends declared to date. Each share of common stock is entitled to one vote.

The Company has classified all unvested shares of common stock issued upon the early exercise of stock options as employee deposits (a liability) as these options are not considered to be substantively exercised until vested. At September 30, 2015 and December 31, 2014, 3,000 and 13,000 shares of common stock, respectively, from early exercised options were unvested.

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Controlled Equity Offering

On June 1, 2015, the Company entered into a Controlled Equity Offering Sales Agreement ("Sales Agreement"), with Cantor Fitzgerald & Co. ("Cantor"), as sales agent, pursuant to which the Company may, at its discretion, issue and sell common stock from time to time with a value of up to a maximum of $25.0 million in an at-the-market offering. All sales of shares have been and will continue to be made pursuant to a shelf registration statement that was declared effective by the Securities and Exchange Commission ("SEC") on June 1, 2015. Cantor is acting as sole sales agent for any sales made under the Sales Agreement for a 3% commission on gross proceeds. The common stock is being sold at prevailing market prices at the time of the sale, and, as a result, prices may vary. Unless otherwise terminated earlier, the Sales Agreement continues until all shares available under the Sales Agreement have been sold.

The following table summarizes the total sales under the Sales Agreement through the period indicated (in thousands, except per share amounts):

	September 30, 2015
Total shares of common stock sold	509,741
Average price per share	$ 20.04
Gross proceeds	$ 10,216
Commissions earned by Cantor	$ 306
Other issuance costs	$ 253

Shares reserved for Future Issuance

Shares of Company's common stock reserved for future issuance are as follows:

	September 30, 2015	December 31, 2014
Common stock options outstanding	5,381,791	4,981,522
Common stock options available for grant	1,482,415	1,518,191
Employee stock purchase plan	410,828	249,887
Warrants to purchase common stock	—	7,116
Total	7,275,034	6,756,716

9. STOCK-BASED COMPENSATION

Stock Compensation Plans

In October 2002, the Company established its 2002 Employee, Director and Consultant Stock Plan and in December 2007, the Company established its 2007 Stock Plan. No further grants were then made under the 2002 Plan.

In February 2014, the Company's board of directors adopted, and in March 2014 the Company's stockholders approved, the 2014 Equity Incentive Plan (the "2014 Plan"), which became effective on the completion of the IPO. No further grants were then made under the 2007 Plan. Under the 2014 Plan, 1,993,394 shares of the Company's common stock were made available for issuance, which included all shares that, as of the effective time, were reserved for issuance pursuant to the 2007 Plan, and is subject to further increase for shares that were subject to outstanding options under the 2007 Plan and the 2002 Plan as of the effective time that thereafter expire, terminate, or otherwise are forfeited or reacquired. The number of shares of the Company's common stock reserved for issuance pursuant to the 2014 Plan will automatically increase on the first day of each fiscal year for a period of up to 10 years, commencing on the first day of the fiscal year following 2014, in an amount equal to 4% of the total number of shares of the Company's capital stock

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outstanding on the last day of the preceding fiscal year, or a lesser number of shares as determined by our board of directors. For 2015, the common stock available for issuance under the 2014 Plan increased by 701,763 shares of common stock. As of September 30, 2015, the number of shares available for issuance under the 2014 Plan was 1,482,415.

Options granted under the 2014 Stock Plan may have terms of up to ten years. All options issued to date have had a ten year life. The exercise price of an ISO shall not be less than 100% of the estimated fair value of the shares on the date of grant, as determined by the board of directors. The exercise price of an ISO and NSO granted to a 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant, respectively, as determined by the board of directors. The exercise price of a NSO shall not be less than the par value per share of common stock. The options granted generally vest over four years and vest at a rate of 25% upon the first anniversary of the issuance date and 1/48th per month thereafter.

In February 2014, the Company's board of directors adopted and, in March 2014, the Company's stockholders approved, the 2014 Employee Stock Purchase Plan (the "ESPP"), which became effective on the completion of the Company's IPO. The ESPP authorized the issuance of 262,762 shares. Under the ESPP, employees, subject to certain restrictions, may purchase shares of common stock at 85% of the fair market value at either the beginning of the offering period or the date of purchase, whichever is less. Purchases are limited to the lesser of 15% of each employee's eligible annual compensation or $25,000. Through September 30, 2015, the Company issued a total of 27,374 shares under the ESPP. The number of shares available for future issuance under the plan were 410,828 at September 30, 2015. Beginning January 1, 2015 and continuing through and including January 1, 2024, the amount of common stock reserved for issuance under the ESPP will increase annually on that date by the lesser of (i) one percent (1%) of the total number of shares of common stock outstanding on such December 31, (ii) 520,000 shares of common stock, or (iii) a number of shares as determined by the board of directors prior to the beginning of each year, which shall be the lesser of (i) or (ii) above. For 2015, the common stock available for issuance under the ESPP increased by 175,440 shares of common stock.

The stock option and related activity under all of our stock option plans is summarized as follows:

	Outstanding Options			
Stock Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
Balances, December 31, 2014	4,981,522	$ 6.10		$
Options granted	891,150	18.15		
Options exercised	(337,270)	1.99		
Options forfeited	(153,611)	3.36		
Balances, September 30, 2015	5,381,791	$ 8.43	7.44	$ 46,322

Vested and expected to vest, September 30, 2015	5,133,251	$ 8.25	7.38	$ 45,040
Exercisable, September 30, 2015	2,586,904	$ 4.41	6.10	$ 32,082

The aggregate intrinsic value of options outstanding, vested and expected to vest, and exercisable were calculated as the difference between the exercise price of the options and the fair value of Adamas' common stock of $16.74 as of September 30, 2015.

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Stock-Based Compensation

The following table reflects stock-based compensation expense recognized for the three and nine months ended September 30, 2015 and 2014, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Research and development:				
Employees	$ 703	$ 315	$ 1,799	$ 718
Nonemployee consultants	79	327	491	1,019
General and administrative:				
Employees	1,793	896	4,617	2,068
Nonemployee consultants	48	499	298	1,102
Total expense	$ 2,623	$ 2,037	$ 7,205	$ 4,907

As of September 30, 2015, there was total unrecognized compensation cost of approximately $26.2 million. This cost is expected to be recognized over a period of 3.0 years.

The Company estimated the fair value of each option grant on the date of grant using the Black-Scholes model with the following weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Expected price volatility	79% - 80%	85% - 96%	68% - 80%	72% - 98%
Risk-free interest rate	1.69% - 1.89%	1.66% - 2.41%	1.37% - 1.95%	0.81% - 2.75%
Expected term (in years)	6.00 - 6.25	5.50 - 10.00	5.50 - 6.25	3.25 - 10.00
Dividend yield	—	—	—	—

Non-employee Stock-Based Compensation

During the three and nine months ended September 30, 2015, the Company did not grant options of common stock to consultants. During the three and nine months ended September 30, 2014, the Company granted options to purchase 29,000 and 199,550 shares of common stock to consultants, respectively. These options are granted in exchange for consulting services to be rendered and vest over the term of the consulting agreement.

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10. NET INCOME PER SHARE

A reconciliation of the numerator and denominator used in the calculation of the basic and diluted net income (loss) per share is as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Historical net income (loss) per share				
Numerator:				
Net income (loss)	$ (14,859)	$ (9,557)	$ (41,112)	$ 492
Noncumulative dividend on preferred stock	—	—	—	(432)
Undistributed earnings allocated to preferred stockholders	—	—	—	(7)
Basic net income (loss) attributable to common stockholders	(14,859)	(9,557)	(41,112)	53
Adjustment to net income for dilutive securities	—	—	—	1
Diluted net income (loss) attributable to common stockholders	$ (14,859)	$ (9,557)	$ (41,112)	$ 54
Denominator:				
Basic common shares outstanding:				
Basic common shares outstanding: weighted average common shares outstanding	18,398	16,801	18,006	14,009
Less: weighted average unvested common shares subject to repurchase	(3)	(14)	(5)	(11)
Weighted average number of common shares used in calculating net income per share—basic	18,395	16,787	18,001	13,998
Dilutive securities:				
Common stock options	—	—	—	2,606
Warrants to purchase common stock	—	—	—	165
Weighted average number of common shares used in calculating net income per share—diluted	18,395	16,787	18,001	16,769
Net income (loss) per share attributable to common stockholders				
Basic	$ (0.81)	$ (0.57)	$ (2.28)	$ —
Diluted	$ (0.81)	$ (0.57)	$ (2.28)	$ —

The following outstanding shares of potentially dilutive securities were excluded from the computation of diluted net income per share of common stock for the periods presented, because including them would have been anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Options to purchase common stock	5,381	5,236	5,206	198

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the section of this report entitled "Selected financial data" and our financial statements and related notes included elsewhere in this report. This discussion and other parts of this report contain forward-looking statements that involve risk and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section of this report entitled "Risk factors."

Overview

We are a specialty pharmaceutical company driven to improve the lives of those affected by chronic disorders of the central nervous system, or CNS. We achieve this by enhancing the pharmacokinetic profiles of approved drugs to create novel therapeutics for use alone and in fixed-dose combination products. Our business strategy is twofold. We intend to develop and commercialize our wholly-owned products directly. In addition, we may form partnerships with companies that have an already established CNS market presence. We are developing our lead wholly-owned product candidate, ADS-5102 (amantadine hydrochloride), for a complication associated with the treatment of Parkinson's disease known as levodopa-induced dyskinesia, or LID, and potentially as a treatment for one or more additional CNS indications. In 2013, we successfully completed a Phase 2/3 clinical trial, in which patients receiving ADS-5102 had a statistically significant 43% reduction in LID compared to their baseline LID experienced prior to taking ADS-5102. In the third quarter of 2015, we completed enrollment in EASE LID, a confirmatory Phase 3 trial of ADS-5102. We expect to announce top-line results from EASE LID by the end of the first quarter of 2016. In addition, we plan to complete enrollment in EASE LID 3 near year-end 2015. Assuming that the data from our Phase 3 program for ADS-5102 for LID are supportive, we anticipate the filing of a New Drug Application, or NDA, with the U.S. Food and Drug Administration, or FDA, for LID in 2016.

Furthermore, we are exploring the utility of ADS-5102 for the treatment of major symptoms associated with multiple sclerosis, or MS, in patients with walking impairment, with the initiation of a Phase 2 clinical program in June 2015.

We plan to commercialize ADS-5102 and potentially other wholly-owned product candidates, if approved, by developing a specialty CNS commercial organization including a sales force to reach high volume prescribing neurologists and movement disorder specialists in the United States and in other markets through distribution agreements and collaborations with CNS-focused pharmaceutical companies. Through a partnership with Forest Laboratories Holdings Limited, or Forest, an indirect wholly-owned subsidiary of Allergan plc, our portfolio includes two drugs commercially available in the United States: Namzaric™ (memantine hydrochloride extended-release and donepezil hydrochloride) (formerly MDX-8704) and Namenda XR® (memantine hydrochloride) extended release capsules, launched in May 2015 and June 2013, respectively.

Our revenue to date has been generated primarily from license, milestone, and development revenue pursuant to our license agreement with Forest. We have not generated any commercial product revenue. As of September 30, 2015, we had an accumulated deficit of $51.5 million. Although we reported net income in each of the years ending December 31, 2014, 2013, and 2012, this was primarily due to the recognition of revenue pursuant to our license agreement with Forest. There are no further milestone payments to be earned under our license agreement with Forest. We cannot assure you that we will receive additional collaboration revenue in the future. We incurred significant losses prior to 2012 and expect to incur significant and increasing losses in the foreseeable future as we advance our product candidates into later stages of development and, if approved, commercialization.

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Under our agreement with Forest, we received a non-refundable upfront license fee of $65.0 million in 2012, which we recognized on a straight-line basis from November 2012 to February 2013, $40.0 million in development milestone fees recognized in 2013, a $25.0 million milestone payment related to FDA acceptance of Forest's New Drug Application, or NDA, submission for Namzaric recognized in May 2014, and a final $30.0 million milestone payment recognized in December 2014 upon FDA approval of the NDA. Beginning five years after the May 2015 commercial launch we are entitled to receive tiered royalties in the low double digits to the mid-teens for sales of Namzaric in the United States. In addition, we are also entitled to receive tiered royalties in the low to mid-single digits from Forest for sales of Namenda XR in the United States beginning in June 2018, however, we do not expect the Namenda XR royalties will make a significant financial contribution to our business.

We expect our research and development expenses to increase as we continue to advance our product candidates through clinical development. In addition, we plan to commercialize ADS-5102, if approved, and potentially other wholly-owned product candidates by developing a specialty CNS commercial organization, including a sales force to reach high volume prescribing neurologists and movement disorder specialists in the United States. Because of the numerous risks and uncertainties associated with drug development, we are unable to predict the timing or amount of expenses incurred or when, or if, we will be able to achieve sustained profitability.

Prior to our initial public offering of our common stock, or IPO, in April 2014, we had raised an aggregate of approximately $87.2 million through the sale of convertible preferred stock and $1.0 million through the exercise of preferred stock warrants. In 2014, we issued and sold 3,081,371 shares of common stock in our IPO and received net proceeds of approximately $42.6 million, which included partial exercise of the underwriters' option to purchase additional shares and after deducting underwriting discounts, commissions and offering expenses. In connection with the completion of our IPO, all convertible preferred stock converted into common stock. On June 1, 2015, we entered into a Controlled Equity Offering Sales Agreement, pursuant to which we may, from time to time, issue and sell shares of common stock having an aggregate offering value of up to $25.0 million. As of September 30, 2015, we had issued 509,741 shares of common stock and raised net proceeds of $9.7 million under the Sales Agreement.

As of September 30, 2015, we had cash, cash equivalents, and investments of $132.6 million.

Revenue

We have not generated any revenue from commercial product sales to date. Our revenue to date has been generated primarily from non-refundable upfront license payments, milestone payments, and reimbursements for research and development expenses under our license agreement with Forest and to a lesser degree from NIH grants and government contracts. We do not expect to recognize any further milestone payments under our license agreement with Forest, while development funding is expected to remain at modest levels in the current and future periods. Beginning in May 2020, we will be entitled to receive royalties in the low double digits to the mid-teens from Forest for sales of Namzaric in the United States and in June 2018, we will be entitled to receive royalties in the low to mid-single digits for sales of Namenda XR in the United States. We were also awarded a continuation of an

NIH grant for $1.0 million in August 2014, which we will administer, but conduct through subcontractors. The focus of work under this grant is in non-core areas to the Company.

Research and development expenses

Research and development expenses represent costs incurred to conduct research, such as the discovery and development of our wholly-owned product candidates, as well as the development of product candidates pursuant to our agreement with Forest. We recognize all research and development costs as they are incurred. We began tracking our external costs by project beginning January 1, 2006.

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Research and development expenses consist of:

- fees paid to clinical consultants, clinical trial sites, and vendors, including clinical research organizations, or CROs, in conjunction with implementing and monitoring our clinical trials and acquiring and evaluating clinical trial data, including all related fees, such as for investigator grants, patient screening fees, laboratory work, and statistical compilation and analysis;

- expenses related to production of clinical supplies, including fees paid to contract manufacturing organizations, or CMOs;

- other consulting fees paid to third parties; and

- employee-related expenses, which include salaries, benefits, and stock-based compensation.

The following table summarizes our research and development expenses incurred during the three and nine months ended September 30, 2015 and 2014 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Product candidates				
ADS-5102	$ 8,350	$ 5,138	$ 23,572	$ 12,622
Other research and development expenses (1)	1,610	274	2,626	721
Total research and development expenses	$ 9,960	$ 5,412	$ 26,198	$ 13,343

(1) Other research and development expenses include costs not allocated to a specific program.

The program-specific expenses summarized in the table above include costs directly attributable to our product candidates. We allocate research and development salaries, benefits, stock-based compensation, and indirect costs to our product candidates on a program-specific basis, and we include these costs in the program-specific expenses.

The largest component of our total operating expenses has historically been our investment in research and development activities, including the clinical development of our product candidates. We anticipate our research and development expenses will increase as we continue our clinical trials for ADS-5102 in LID and major symptoms associated with MS and potentially initiate additional clinical-stage programs in more indications or for future product

candidates. The process of conducting the necessary clinical research to obtain FDA approval is costly and time consuming. We consider the active management and development of our clinical pipeline to be crucial to our long-term success. The actual probability of success for each product candidate and clinical program may be affected by a variety of factors including but not limited to the quality of the product candidate, early clinical data, investment in the program, competition, manufacturing capability, and commercial viability. Furthermore, in the past we have entered into collaborations with other pharmaceutical companies, CROs, and academic third parties to participate in the development and commercialization of our product candidates, and we may enter into additional collaborations in the future. In situations in which third parties have control over the clinical development of a product candidate, the estimated completion dates are largely under the control of such third parties and not under our control. We cannot forecast with any degree of certainty which of our product candidates, if any, will be subject to future collaborations or how such arrangements would affect our development plans or capital requirements. As a result of the uncertainties discussed above, we are unable to determine the duration and completion costs of our research and development projects or when and to what extent we will generate revenue from the commercialization and sale of any of our product candidates.

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General and administrative expenses

General and administrative expenses consist primarily of personnel and related benefit costs, and facilities, professional services, insurance, and public company related expenses. We anticipate our general and administrative expenses will increase as we continue to support our clinical and potentially commercial-stage programs. If ADS-5102 or other products are approved by the FDA, we plan to market and sell through our own sales force to reach high volume prescribing neurologists and movement disorder specialists in the United States, which will further increase general and administrative expenses.

Interest and other income (expense), net

Interest and other income (expense), net consists primarily of interest received on our cash, cash equivalents, and short and long-term investments, as well as gains and losses resulting from the remeasurement of our convertible preferred stock warrant liability. We recorded adjustments to the estimated fair value of the convertible preferred stock warrants until they were exercised or expired. Subsequent to the IPO, we reclassified the convertible preferred stock warrant liability as additional paid-in capital and we no longer recorded any related periodic fair value adjustments.

Critical accounting policies and significant judgments and estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant and material changes in our critical accounting policies during the nine months ended September 30, 2015, as compared to those disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the year ended December 31, 2014.

Results of operations

Comparison of the three and nine months ended September 30, 2015 and 2014

The following table summarizes our results of operations for the three and nine months ended September 30, 2015 and 2014 (in thousands, except percentages):

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2015	2014	Increase/ (Decrease)	% Increase/ (Decrease)		2015	2014	Increase/ (Decrease)	% Increase/ (Decrease)	
Revenue	$ 768	$ 215	$ 553	257	%	$ 1,392	$ 25,545	$ (24,153)	(95)	%
Research and development expenses	9,960	5,412	4,548	84	%	26,198	13,343	12,855	96	%
General and administrative expenses	5,803	4,353	1,450	33	%	16,568	10,724	5,844	54	%
Interest and other income (expense), net	85	(1)	86	8,600	%	265	(801)	1,066	133	%

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Revenue

Our revenue for the three and nine months ended September 30, 2015 was $0.8 million and $1.4 million, respectively, compared to $0.2 million and $25.5 million, respectively, for the same periods in the prior year. Revenue for both periods in 2015 is primarily related to reimbursement of certain expenses as provided for in our license agreement with Forest, as well as from government contracts. Revenue for the three and nine months ended September 30, 2014 related to reimbursement of certain expenses as provided for in our license agreement with Forest. Additionally, we received a $25.0 million development milestone from Forest in May 2014, which is included in revenue for the nine months ended September 30, 2014.

Research and development expenses

Research and development expenses increased by $4.5 million, or 84%, to $10.0 million for the three months ended September 30, 2015 from $5.4 million for the three months ended September 30, 2014. Included in research and development expenses was stock-based compensation expense, which was $0.8 million for the three months ended September 30, 2015, compared to $0.6 million for the same period in prior year. The increase in research and development expenses was attributed to our continued development of ADS-5102, which increased by $3.2 million, or 63%, to $8.4 million from $5.1 million for the three months ended September 30, 2015 and 2014, respectively. The increase related primarily to increased headcount, as well as continued enrollment in our Phase 3 program in support of ADS-5102 for LID and our Phase 2 trial for the treatment of major symptoms associated with MS.

For the nine months ended September 30, 2015 and 2014, research and development expenses increased by $12.9 million, or 96%, to $26.2 million from $13.3 million, respectively. Included in research and development expenses was stock-based compensation expense, which was $2.3 million for the nine months ended September 30, 2015 compared to $1.7 million for the same period in prior year. The increase in research and development expenses was attributed to our continued development of ADS-5102, which increased by $11.0 million, or 87%, to $23.6 million from $12.6 million for the nine months ended September 30, 2015 and 2014, respectively. The increase related primarily to manufacturing of clinical supplies, increased headcount, as well as continued enrollment in our Phase 3 program in support of ADS-5102 for LID and our Phase 2 trial for the treatment of major symptoms associated with MS.

General and administrative expenses

General and administrative expenses increased by $1.5 million, or 33%, to $5.8 million for the three months ended September 30, 2015 from $4.4 million for the three months ended September 30, 2014. The increase in general and administrative expenses was primarily due to the increase in headcount-related expenses to expand our capabilities as a public and pre-commercial company. General and administrative expenses also included stock-based compensation

expense of $1.8 million compared to $1.4 million for the three months ended September 30, 2015 and 2014, respectively.

For the nine months ended September 30, 2015 and 2014, general and administrative expenses increased by $5.8 million, or 54%, to $16.6 million from $10.7 million, respectively. The increase in general and administrative expenses was primarily due to the increase in headcount-related expenses to expand our capabilities as a public and pre-commercial company. General and administrative expenses also included stock-based compensation expense of $4.9 million compared to $3.2 million for the nine months ended September 30, 2015 and 2014, respectively.

Interest and Other income (expense), net

Interest and other income (expense), net, increased by $86,000 with net interest income of $85,000 for the three months ended September 30, 2015 compared to other expense of $1,000 for the three months ended September 30, 2014. For the nine months ended September 30, 2015 net interest income was $0.3, an increase of $1.1 million compared to the nine months ended September 30, 2014 in which we recorded other expense of $0.8 million. Net interest income for the three and nine months ended September 30, 2015 was primarily due to interest income earned on investments. In the

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three and nine months ended September 30, 2014 we recorded other expense, primarily attributed to the remeasurement of preferred stock warrants and recognition of the change in fair value.

Liquidity, capital resources and plan of operation

We have funded our operations primarily through $160 million of payments received pursuant to our license agreement with Forest, $88.2 million of sales of convertible preferred stock and warrants, and $42.6 million pursuant to sales of our common stock in public offerings, including $41.4 million in our April 2014 IPO. On June 1, 2015, we entered into a Controlled Equity Offering Sales Agreement, pursuant to which we may, from time to time, issue and sell shares of common stock having an aggregate value of up to $25.0 million. As of September 30, 2015, we had issued 509,741 shares of common stock and raised net proceeds of $9.7 million under the Sales Agreement. We have not generated any revenue from the sale of products. We incurred losses and generated negative cash flows from operations since inception through the year ended December 31, 2011. Although in 2014, 2013, and 2012, we recognized a profit and positive cash flow as a result of payments received pursuant to our license agreement with Forest, we received our final milestone payment from Forest in December 2014, and we do not currently receive any royalties from Forest, nor do we have other collaborations from which we might expect milestone or royalty revenue. Consequently, we expect to incur substantial and increasing losses for the foreseeable future. As of September 30, 2015, we had cash, cash equivalents and investments of $132.6 million. We believe our existing cash and cash equivalents will be sufficient to fund our projected operating requirements, including operations related to the continued development of ADS-5102 for LID, for at least the next 12 months based on cash, cash equivalents, and investments on hand as of September 30, 2015.

We expect to increase our spending in connection with the development and commercialization of our product candidates, particularly for ADS-5102 for LID, as well as other indications. In order to continue these activities, we may decide to raise additional funds through a combination of equity offerings, debt financings, collaborations, and other strategic alliances. Sufficient additional funding may not be available on acceptable terms, or at all. If adequate funds are not available in the future, we may need to delay, reduce the scope of, or put on hold our clinical studies, research and development programs, or commercialization efforts.

Comparison of 2015 and 2014

The following table summarizes our cash flows for the periods indicated (in thousands):

	Nine Months Ended

	September 30, 2015	2014
Net cash (used in) provided by:		