TELEDYNE TECHNOLOGIES INC
Form DEF 14A
March 08, 2016
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SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-11c or Section 240.14a-12

TELEDYNE TECHNOLOGIES INCORPORATED
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Teledyne Technologies Incorporated

1049 Camino Dos Rios

Thousand Oaks, CA 91360

March 8, 2016

Dear Stockholder:

We are pleased to invite you to attend the 2016 Annual Meeting of Stockholders of Teledyne Technologies Incorporated. The meeting will be held on Wednesday, April 27, 2016, beginning at 9:00 a.m. (Pacific Time), at the Company s offices at 1049 Camino Dos Rios, Thousand Oaks, California 91360. For your convenience, we are offering a live webcast of the Annual Meeting on our Internet website, www.teledyne.com.

This booklet includes the notice of meeting as well as the Company s Proxy Statement.

As we did in 2015, this year we are following the Securities and Exchange Commission rule that permits us to furnish proxy materials to our stockholders via the Internet. We believe electronic delivery of our proxy materials will help us reduce the environmental impact and costs of printing and distributing paper copies and improve the speed and efficiency by which our stockholders can access these materials. As a result, we are mailing a short Notice of Internet Availability of Proxy Materials (the Notice) to most of our stockholders instead of a paper copy of our full proxy materials. The Notice contains instructions on how to cast your vote online and how to electronically access our proxy materials, including the Notice of Annual Meeting, Proxy Statement, 2015 Annual Report and a proxy card. The Notice also contains instructions on how to request a paper copy of our proxy materials. All stockholders who do not receive the Notice will receive a paper copy of the proxy materials. If you receive a paper copy of our proxy materials, you may cast your vote by completing the enclosed proxy card and returning it in the enclosed self-addressed, postage-paid envelope, or by utilizing the telephone or Internet voting mechanisms noted on the proxy card.

We know that many of you are unable to attend the Annual Meeting in person. The proxies that we solicit give you the opportunity to vote on all matters that are scheduled to come before the Annual Meeting. Whether or not you plan to attend, you can be sure that your shares are represented by promptly voting and submitting your proxy by phone or by Internet as described in the following materials, or if you request that proxy materials be mailed to you, by completing, signing, dating, and returning your proxy card enclosed with those materials in the postage-paid envelope provided to you.

If you are a stockholder of record and plan to attend the meeting, please indicate so if voting electronically when prompted or mark the WILL ATTEND box on your proxy card if voting by mail so that you will be included on our admittance list for the meeting.

Thank you for your investment in our Company. We look forward to seeing you at the 2016 Annual Meeting.

Sincerely,

Robert Mehrabian

Chairman, President and

Chief Executive Officer

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Teledyne Technologies Incorporated

Notice of Annual Meeting of Stockholders

Meeting Date: April 27, 2016	Place: Teledyne Technologies Incorporated	Record Date:
Time: 9:00 a.m. Pacific time	1049 Camino Dos Rios	March 1, 2016
	Thousand Oaks, California 91360	

Agenda

1) Election of a class of four directors for a three-year term;

2) Ratification of the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for fiscal year 2016;

3) Approval of a non-binding advisory resolution on the Company s executive compensation (commonly referred to as a say on pay resolution); and

4) Transaction of any other business properly brought before the meeting.

Stockholder List

A list of stockholders entitled to vote will be available during business hours for 10 days prior to the meeting at the Company s executive offices, 1049 Camino Dos Rios, Thousand Oaks, California 91360, for examination by any stockholder for any legally valid purpose.

Admission to the Meeting

Teledyne s stockholders or their authorized representatives by proxy may attend the meeting. If you are a stockholder of record and you plan to attend the meeting, please indicate so if voting electronically when prompted or mark the WILL ATTEND box on your proxy card if voting by mail so that you will be included on our admittance list for the meeting. If your shares are held through an intermediary, such as a broker or a bank, you should present proof of your ownership at the meeting. Proof of ownership could include a proxy from your bank or broker or a copy of your account statement.

By Order of the Board of Directors,

Melanie S. Cibik

Senior Vice President, General Counsel

and Secretary

March 8, 2016

Your Vote Is Important:

Whether or not you plan to attend the annual meeting, please promptly submit your proxy electronically over the internet or by telephone, or if you receive a paper proxy card, please fill in, sign and promptly return your proxy card in the enclosed postage-paid envelope

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting Stockholders to be Held on Wednesday, April 27, 2016. **Our Proxy Statement and 2015 Annual Report on Form 10-K are available at: www.envisionreports.com/tdy.**

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Proxy Statement

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DEFINED TERMS

In this Proxy Statement, Teledyne Technologies Incorporated is sometimes referred to as the   Company   or   Teledyne .

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Proxy Statement

for 2016 Annual Meeting of Stockholders

Pursuant to the rules adopted by the U.S. Securities and Exchange Commission (the SEC), the Company is furnishing proxy materials to its stockholders primarily via the Internet, rather than mailing paper copies of these materials to each stockholder. This is known as the notice and access method of delivery. The Company believes this process will help it reduce the environmental impact and costs of printing and distributing paper copies and improve the speed and efficiency by which the Company s stockholders can access these materials. On or about March 15, 2016, the Company will mail to each stockholder (other than those stockholders who previously had requested paper delivery of proxy materials) a Notice of Internet Availability of Proxy Materials containing instructions on how to access and review the proxy materials, including this Proxy Statement and the Company s 2015 Annual Report on Form 10-K filed with the SEC, on the Internet and how to access a proxy card to vote on the Internet or by telephone. The Notice of Internet Availability of Proxy Materials also contains instructions on how to request a paper copy of the proxy materials. If you received a Notice of Internet Availability of Proxy Materials by mail, you will not receive a paper copy of the proxy materials unless you request one. If you would like to receive a paper copy of the proxy materials, please follow the instructions included in the Notice of Internet Availability of Proxy Materials. The Company may at its discretion voluntarily choose to mail or deliver a paper copy of the proxy materials, including this Proxy Statement and the Company s 2015 Annual Report on Form 10-K filed with the SEC, to one or more stockholders.

We are offering a live webcast of the Annual Meeting on our Internet website, *www.teledyne.com*. The webcast of the Annual Meeting will consist of live sound and real-time access to printed material. To access the webcast of the Annual Meeting, a stockholder should log on to *www.teledyne.com* on Wednesday, April 27, 2016 shortly before 9:00 a.m. (Pacific Time) and follow the instructions provided under the Investors section of the website. Stockholders will not be permitted to vote via the Internet during the Annual Meeting nor will they be able to submit questions via the webcast during the questions and answers session.

Voting Procedures

Who May Vote

If you were a stockholder at the close of business on March 1, 2016, you may vote at the Annual Meeting. On that day, there were 34,468,865 shares of our common stock outstanding.

Each share is entitled to one vote. In order to vote, you must either designate a proxy to vote on your behalf or attend the meeting and vote your shares in person. Our Board of Directors requests your proxy so that your shares will count toward determination of the presence of a quorum and your shares can be voted at the meeting.

Methods of Voting

Stockholders of record can vote in person, by Internet, by telephone or by mail, as described below. If you are a beneficial stockholder, please refer to the information forwarded by your broker, bank or other holder of record to see what options are available to you. Stockholders of record may cast their vote by:

(1) Attending and voting in person at the Annual Meeting;

(2) Accessing the Internet website specified in the Notice of Internet Availability of Proxy Materials and following the instructions provided on the website (or if printed copies of the proxy materials were requested, as specified in the printed proxy card);

(3) Calling the telephone number specified in the Notice of Internet Availability of Proxy Materials and voting by following the instructions provided on the phone line (or if copies of the proxy materials were requested, as specified in the printed proxy card); or

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Voting Procedures (continued)

(4) Requesting a printed proxy card and completing, signing, dating and promptly mailing the proxy card in the envelope provided.
If you sign and return your proxy card, but do not make specific selections, your proxy will vote your shares as recommended by the Board.

Revoking Your Proxy

You may change your mind and stockholders of record may revoke a proxy at any time before it is voted at the meeting by:

- sending a written notice to the Secretary for receipt prior to the meeting that you revoke your proxy;
- transmitting a proxy dated later than your prior proxy either by mail, telephone or Internet; or
- attending the Annual Meeting and voting in person or by proxy (except for shares held in the employee benefit plan).

If you are a beneficial stockholder, please refer to the information forwarded by your broker, bank or other holder of record to determine what options are available to you.

Voting By Employee Benefit Plan Participants

Participants who hold common stock in the Teledyne Technologies Incorporated 401(k) Plan may instruct the plan trustee how to vote the shares of common stock allocated to their accounts. You may either (1) sign and return the voting instruction card provided by the plan or (2) transmit your instructions by telephone or Internet. If you do not transmit instructions by 11:59 p.m. (Eastern Time), on April 22, 2016, your shares will not be voted by the plan trustee, except as otherwise required by law.

Voting Shares Held By Brokers, Banks and Other Nominees

Votes will be counted by the inspector of election appointed for the meeting, who will separately count For and Withhold and, with respect to any proposals other than the election of directors, Against votes, abstentions and broker non-votes. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner, despite voting on at least one other proposal for which it does have discretionary authority or for which it has received instructions. Pursuant to our Amended and Restated Bylaws, abstentions shall not count as votes cast ; consequently, abstentions will have no effect on any proposal. With respect to each proposal, broker non-votes have no effect and will not be counted towards the vote total for any proposal, including the election of directors and say on pay. With respect to each proposal, abstentions and broker non-votes will be included in determining the presence of a quorum.

If your shares are held by your broker, bank or other agent as your nominee (that is, in street name), you will need to obtain voting instructions from the institution that holds your shares regarding how to instruct your broker, bank or other agent to vote your shares. If you do not give instructions to your broker, bank or other agent, they can vote your shares with respect to discretionary items, but not with respect to non-discretionary items. Discretionary items are proposals considered routine under the rules of the New York Stock Exchange (NYSE) on which your broker, bank or other agent may vote shares held in street name in the absence of your voting instructions. The only item that is considered routine under the rules of the NYSE to be considered at this year s Annual Meeting is the ratification of the selection of our independent auditors (Item 2). On non-discretionary items for which you do not give instructions to your broker, bank or other agent, the shares will be treated as broker non-votes.

Confidential Voting Policy

We maintain a policy of keeping stockholder votes confidential. Your vote will not be disclosed either within the Company or to third parties except as necessary to meet applicable legal requirements, to allow for the tabulation and calculation of votes, and to facilitate a successful proxy solicitation.

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Board Composition and Practices

Information and Meetings

The Board of Directors directs the management of the business and affairs of the Company as provided in our Amended and Restated Bylaws and pursuant to the laws of the State of Delaware. Except for Dr. Robert Mehrabian, our Chairman, President and Chief Executive Officer, the Board is not involved in day-to-day operations. Members of the Board keep informed about our business through discussions with the senior management and other officers and managers of the Company and its subsidiaries, by reviewing information provided to them, and by participating in Board and committee meetings.

We encourage, but do not require, that all our directors attend all meetings of the Board of Directors, all committee meetings on which the directors serve and the annual stockholders meeting. In 2015, the Board of Directors held eight meetings (including two joint meetings with the Audit Committee) and acted by written consent four times. During 2015, all directors attended at least 75% of the aggregate number of meetings of the Board and Board committees of which they were members. All of the current directors attended the 2015 Annual Meeting of Stockholders, except for Robert Malone, who was appointed to our Board after the date of the 2015 Annual Meeting.

Number of Directors

The Board of Directors determines the number of directors, which under our Amended and Restated By-laws must consist of not less than four members and not more than 12 members. The Board has currently fixed the number at 11 members; however, effective April 27, 2016, upon the retirement of Frank V. Cahouet, the number of directors will be fixed at ten.

Director Terms

The directors are divided into three classes and the directors in each class serve for a three-year term. The term of one class of directors expires each year at the Annual Meeting of Stockholders. The Board may fill a vacancy by electing a new director to the same class as the director being replaced. The Board may also create a new director position in any class and elect a director to hold the newly created position until the term of the class expires.

Directors Retirement Policy

On June 1, 2000, we adopted a retirement policy for directors. This policy, as amended, generally requires directors to retire at the Annual Meeting following their 75th birthday. This policy also requires a director to offer to tender his or her resignation if such director has a change in professional status. Mr. Cahouet, age 83, is currently serving through the 2017 Annual Meeting under a waiver granted by the Board. On January 26, 2016, Mr. Cahouet notified the Board that he will retire on April 27, 2016. Each of Mr. Crocker, who turned 77 in February 2016 and is currently serving through the 2016 meeting under a waiver granted by the Board, and Dr. Mehrabian, who turns 75 in July 2016, was granted a waiver through the 2019 Annual Meeting, pending their election at the 2016 Annual Meeting.

Board Structure

The Board of Directors currently consists of 11 directors, ten of whom are considered independent under existing rules of the NYSE and the SEC. The Chairman of the Board, who is also our President and Chief Executive Officer and is not considered an independent director, presides at meetings of stockholders and Board meetings. The Board has formally designated Charles Crocker, one of our independent directors, to serve as the lead director. The lead director presides in those executive sessions where the non-management or independent directors meet without the Chief Executive Officer. In addition, the Board s three standing committees consist solely of independent directors.

The Board believes that its current leadership structure effectively allocates authority, responsibility and oversight between management and the independent members of the Board, thus ensuring the Board s ability to carry out its

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Board Composition and Practices (continued)

roles and responsibilities on behalf of the Company s stockholders. The Board does not have a policy regarding the separation of the roles of the Chairman of the Board and the Chief Executive Officer because it believes the Board should be able to freely select the Chairman of the Board based on criteria that it deems to be in the best interests of the Company and its stockholders. The Board does not believe its independence is compromised by having a single person serve as Chairman and Chief Executive Officer. The functions of the Board are carried out by the full Board, and when delegated, by the Board committees. Each director is a full and equal participant in the major strategic and policy decisions of our Company and the Chairman has no greater or lesser vote on matters considered by the Board. Our non-management directors meet in executive session without management (including the Chief Executive Officer) on a regularly scheduled basis, with the lead director presiding in such sessions.

The Board believes that currently it is in the best interests of the Company and its stockholders to have a single person serve as Chairman and Chief Executive Officer to provide unified leadership and direction and an independent lead director to preside over executive sessions and to serve when the Chairman and Chief Executive Officer is unable to perform the duties of that office. However, consistent with good corporate governance principles, the Nominating and Governance Committee will continue to review periodically this issue to determine whether, based on the relevant facts and circumstances at such future times, separation of the offices of Chairman and Chief Executive Officer would better serve the interests of the Company and its stockholders.

Corporate Governance

Director Independence

In April 2015, our Nominating and Governance Committee assessed, and our Board determined, the independence of each director in accordance with applicable NYSE and SEC rules, as then in effect, with the exception of Mr. Malone, for whom such assessment and determination took place in June 2015. In order to comply with such rules, our Nominating and Governance Committee considered various relationship categories including: whether the director is an employee, amount of stock ownership, and commercial, industrial, banking, consulting, legal, accounting or auditing, charitable and familial relationships, as well as a range of individual circumstances (including social friendships between certain members of the Board). See Certain Transactions at page 59. The Nominating and Governance Committee, followed by the Board, determined that each member of our Board of Directors did not have any material relationships with us and was thus independent, with the exception of Dr. Mehrabian, our Chairman, President and Chief Executive Officer. Our management, after reviewing director questionnaires, reported to our Board in February 2016 that information on which the board based its independence assessment in 2015 has not materially changed. The independent directors by name are: Roxanne S. Austin, Frank V. Cahouet, Charles Crocker, Kenneth C. Dahlberg, Simon M. Lorne, Robert A. Malone, Paul D. Miller, Jane C. Sherburne, Michael T. Smith and Wesley W. von Schack.

The Nominating and Governance Committee, followed by the Board, also determined that each member of our Personnel and Compensation Committee is an outside director within the meaning of Rule 162(m) of the Internal Revenue Code and a non-employee director within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act).

All of the Board s standing committees consist only of independent directors.

Corporate Governance and Ethics Guidelines

Our Board of Directors has adopted many best practices in the area of corporate governance, including separate standing committees of the Board for each of audit, nominating and governance and personnel and compensation matters, charters for each of the committees, and corporate ethics and compliance guidelines.

Our ethics and compliance guidelines for employees are contained in the Global Code of Ethical Business Conduct. These guidelines apply to all our employees, including our principal executive, financial and accounting officers. Our employees receive annual ethics training and questionnaires are distributed annually to various personnel in an

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Corporate Governance (continued)

effort to confirm compliance with these guidelines. It is our policy not to waive compliance with these guidelines. We also have a specialized code of ethics for financial executives that supplements the employee guidelines. In addition, we have ethics and compliance guidelines for our service providers.

Our Board of Directors has adopted a code of business conduct and ethics for directors. This code is intended to provide guidance to directors to help them recognize and deal with ethical issues, including conflicts of interest, corporate opportunities, fair dealing, compliance with law and proper use of the Company s assets. It also provides mechanisms to report possible unethical conduct.

Our Board of Directors has adopted Corporate Governance Guidelines. These Corporate Governance Guidelines were initially developed by our Nominating and Governance Committee and are reviewed at least annually by such Committee. These Corporate Governance Guidelines incorporate practices and policies under which our Board has operated since its inception, in addition to many of the requirements of the SEC and the NYSE. Some of the principal subjects covered by the Corporate Governance Guidelines include:

- Director qualification standards.
- Director responsibilities.
- Director access to management and independent advisors.
- Director compensation.
- Director orientation and continuing education.
- Management succession.
- Annual performance evaluation of the Board and its Committees.
- Director retirement and resignations.
- Role of the lead director.

Copies of our Corporate Governance Guidelines, Global Code of Ethical Business Conduct, Code of Ethics for Financial Professionals, Directors Code of Business Conduct and Ethics, Ethics Code of Conduct for Service Providers, Corporate Governance Guidelines and Committee charters are available on our website at www.teledyne.com under Corporate Information Governance . We intend to post any amendments to these documents and any waivers of the provisions thereof related to directors or executive officers on our website. If at any time you would like to receive a paper copy of these documents free-of-charge, please write to Melanie S. Cibik, Senior Vice President, General Counsel and Secretary, Teledyne Technologies Incorporated, 1049 Camino Dos Rios, Thousand Oaks, California 91360.

Risk Management Oversight

The risk oversight function of the Board of Directors is carried out by both the Board and the Audit Committee. As provided in its charter, the Audit Committee meets periodically with management to discuss the Company s major financial and operating risk exposures and the steps, guidelines and policies taken or implemented relating to risk assessment and risk management. Matters of strategic risk are considered by the Board as a whole. At each regularly scheduled meeting of the Audit Committee, our Vice President, Business Risk Assurance reports directly to the Audit Committee on the activities of the Company s internal audit function. Management also reports to the Audit Committee on legal, tax, finance, accounting and pension matters at least quarterly. The Board is provided with reports on legal matters at periodically scheduled meetings and on other matters related to risk oversight on an as needed basis. In addition, the Audit Committee reviews with management the risk factors that appear in our Annual Report on Form 10-K prior to its filing.

We have an Enterprise Risk Management Committee, consisting of executive officers and other employees, to identify significant company risks and determine whether we have appropriate risk management policies, practices, and procedures in place. Our Vice President and Treasurer periodically reports to the Audit Committee and the Board of Directors on the progress and results of this program.

Risks Related to Compensation Policies and Practices

The Company and the Personnel and Compensation Committee have undertaken a process to determine whether the Company s overall compensation program for employees creates incentives for employees to take excessive or

Corporate Governance (continued)

unreasonable risks that could materially harm the Company. As part of this process, the Company received input and analysis from its independent compensation consultant, Exequity LLP, and management prepared a framework of potential risk and evaluated the Company s compensation policies in the context of this framework. The results of this evaluation were reviewed by and discussed with the Personnel and Compensation Committee.

We believe that several features of our compensation policies for management employees appropriately mitigate such risks, including a balanced mix of long- and short-term compensation incentives, the use of incentive award plans with capped payouts, the use of a diverse mix of performance measures in our incentive award plans and our stock ownership requirements for key officers. In addition, we use our annual business plan as a baseline for our Annual Incentive Plan targets, which the Personnel and Compensation Committee regards as setting an appropriate level of risk taking for the Company. We also believe the Company s internal legal and financial controls appropriately mitigate the probability and potential impact of an individual employee committing the Company to a harmful long-term business transaction in exchange for short-term compensation benefits. In light of these features of our compensation program and these additional controls, our management and our Personnel and Compensation Committee have concluded that the risks arising from our employee compensation policies and practices are not reasonably likely to have a material adverse effect on the Company.

Sarbanes-Oxley Disclosure Committee

We have a Sarbanes-Oxley Disclosure Committee. Current members include: Carl Adams, Vice President, Business Risk Assurance; Cynthia Belak, Vice President and Controller; Stephen F. Blackwood, Vice President and Treasurer; Melanie S. Cibik, Senior Vice President, General Counsel and Secretary; Michael C. Lee, Associate Director, Global Income Tax Reporting; Brian A. Levan, Senior Director of Financial Reporting and Assistant Controller; Susan L. Main, Senior Vice President and Chief Financial Officer; S. Paul Sassalos, Associate General Counsel and Assistant Secretary; Caleb Standafer, Senior Director, Taxation and Associate Treasurer; and Jason VanWees, Senior Vice President, Strategy and Mergers and Acquisitions. Among its tasks, the Disclosure Committee discusses and reviews disclosure issues to help us fulfill our disclosure obligations on a timely basis in accordance with SEC rules and regulations and is intended to be used as an additional resource for employees to raise questions regarding accounting, auditing, internal controls and disclosure matters.

We have a confidential Ethics/Help Line, where questions or concerns about us can be raised confidentially and anonymously. The Ethics/Help line is available to all of our employees, as well as concerned individuals outside the Company. The toll-free help line number is 1-877-666-6968. International dialing instructions are available at www.teledyne.ethicspoint.com. Issues can also be reported via that website.

The receipt of concerns about our accounting, internal controls and auditing matters will be reported to the Audit Committee.

Communications with the Board

Our Corporate Governance Guidelines provide that any interested parties desiring to communicate with our non-management directors, including our lead director, may contact them through our Secretary, Melanie S. Cibik, whose address is: Teledyne Technologies Incorporated, 1049 Camino Dos Rios, Thousand Oaks, California 91360. The Secretary will review each communication received and make a determination as to whether the communication, or a summary thereof, will be forwarded to the Nominating and Governance Committee or other appropriate Board committee or member.

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Item 1 on Proxy Card Election of Directors

The Board of Directors has nominated for election this year the class of four incumbent directors whose terms expire at the 2016 Annual Meeting. The three-year term of the class of directors nominated and elected this year will expire at the 2019 Annual Meeting. So long as the number of nominees does not exceed the number of nominees to be elected (which is four nominees in the case of the 2016 Annual Meeting), each nominee will be elected if the nominee receives the vote of the majority of the votes cast with respect to such director. A majority of the votes cast means that the number of shares voted for a nominee must exceed the number of votes cast against that nominee. The Board has adopted a policy whereby all director nominees must submit a contingent resignation in writing to the Chairman of the Nominating and Governance Committee. The resignation becomes effective only if the director is not elected by a majority of votes cast and the Board accepts the resignation. The Nominating and Governance Committee or another committee appointed by the Board will recommend to the Board whether to accept or reject the resignation or whether other action should be taken. The Board will act on such committee s recommendation and publicly disclose its decision and the rationale behind it within 90 days following the date of the certification of the election results. The director who was not elected by a majority of votes cast will not participate in the Board s decision with respect to such resignation. If the number of nominees exceeds the number of directors to be elected, the nominees who receive the highest number of votes cast will be elected.

Unless otherwise instructed, the individuals named as proxies in the proxy card will vote each proxy received by them for the election of the four named nominees. You may withhold authority for the proxies to vote your shares on any or all of the nominees by following the instructions on your proxy card. If a nominee becomes unable to serve, the proxies will vote for a Board-designated substitute or the Board may reduce the number of directors. The Board has no reason to believe that any nominee will be unable to serve.

Background information about the nominees and continuing directors follows, including the specific experiences, qualifications, attributes and skills that the Board believes qualifies each of the below named individuals to serve as a director of the Company, in light of the Company s business and structure.

Nominees For Terms Expiring at 2019 Annual Meeting (Class II)

Charles Crocker

Charles Crocker is the Chairman and Chief Executive Officer of Crocker Capital, a private investment company. Mr. Crocker was the Chief Executive Officer of the Custom Sensors and Technologies Division of Schneider Electric until January 2006. Mr. Crocker was the Chairman and Chief Executive Officer of BEI Technologies, Inc., a diversified technology company, from March 2000 until October 2005, when it was acquired by Schneider Electric. Mr. Crocker served as Chairman, President and Chief Executive Officer of BEI Electronics from October 1995 to September 1997, at which time he became Chairman, President and Chief Executive Officer of BEI Technologies, Inc. He serves as a director of ImageWare Systems, Inc., a developer of identity management solutions. From 2003 until 2014, he served as a director of Franklin Resources, Inc., and from 2010 until August 2012, he served as a director of ConMed Healthcare Management, Inc. Mr. Crocker has been Chairman of the Board of Children s Hospital in San Francisco, Chairman of the Hamlin School s Board of Trustees and President of the Foundation of the Fine Arts Museums of San Francisco. Mr. Crocker is the Chair of our Personnel and Compensation Committee and a member of our Nominating and Governance Committee. Mr. Crocker serves as our lead director.

Chairman and Chief Executive Officer, Crocker Capital and Retired Chairman and Chief Executive Officer of BEI Technologies, Inc.

Director since 2001

Age: 77

The following experience, qualifications, attributes and/or skills led the Board to conclude that Mr. Crocker should serve as a director: his professional background and experience, current and previously held senior-executive level positions, his service on other public and private company boards, his Teledyne board experience, board attendance and participation, and his extensive experience with technology companies serving both the commercial and defense sectors.

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Item 1 on Proxy Card Election of Directors (continued)

Robert Mehrabian *Chairman, President and Chief Executive Officer of the Company* ***Director since*** 1999 ***Age:*** 74	Robert Mehrabian is the Chairman, President and Chief Executive Officer of Teledyne Technologies Incorporated. He has been the President and Chief Executive Officer of Teledyne since its formation in 1999. He became Chairman of the Board in December 2000. Prior to the spin-off of the Company by Allegheny Technologies Incorporated (ATI) in November 1999, Dr. Mehrabian was the President and Chief Executive Officer of ATI s Aerospace and Electronics segment since July 1999 and had served ATI in various senior executive capacities since July 1997. Before joining ATI, Dr. Mehrabian served as President of Carnegie Mellon University. From 1992 until April 2014, he served as a director of PPG Industries, Inc. Dr. Mehrabian served as a director of Mellon Financial Corporation from 1994 to 2007 and served as director of its successor The Bank of New York Mellon Corporation until April of 2011. He is a member of The National Academy of Engineering. The following experience, qualifications, attributes and/or skills led the Board to conclude that Dr. Mehrabian should serve as a director: his leadership skills acquired while serving as the Company s Chairman, Chief Executive Officer and President, previously held senior-executive level positions at public companies and at academic institutions, his service on public company boards, and his extensive knowledge and understanding of the Company s business, operations, technology, products and services.
Jane C. Sherburne	Ms. Sherburne is currently principal of Sherburne PLLC, a legal consulting firm providing strategic advice in crisis environments and in connection with regulatory policy developments. From May 2010 to July 2014, Ms. Sherburne served as Senior Executive Vice President, General Counsel and Corporate Secretary of The Bank of New York Mellon Corporation. Ms. Sherburne served as Senior Executive Vice President and Corporate Secretary of Wachovia Corporation from June 2008 to January 2009, during which time Wachovia merged with Wells Fargo & Company. From December 2006 to June 2008, Sherburne was General Counsel of Citigroup Inc. s Global Consumer Business. From July 2001 to December 2006, Ms. Sherburne was Deputy General Counsel of Citigroup, Inc. Until July 2001, Ms. Sherburne was a litigation partner at the Washington, D.C. law firm of Wilmer, Cutler & Pickering, having joined the firm in 1984. Ms. Sherburne interrupted her private practice from 1994 to 1997 to serve as Special Counsel to the President in the Clinton White House. Ms. Sherburne serves as an independent director on the boards of HSBC USA, HSBC Bank USA and HSBC North America and on the advisory board of Perella Weinberg Partners. Ms. Sherburne is Chairman of the Board of the National Women s Law

Principal of Sherburne PLLC

Former Senior Executive Vice President, General Counsel and Corporate Secretary of Bank of New York Mellon

Director since 2014

Age: 65

Center, Chair of the New York City Bar Fund, a member of the Executive Committee of the Lawyers Committee for Civil Rights Under Law, a member of the Board of Trustees of the New York Lawyers for Public Interest, a Trustee of The Constitution Project, a member of the Committee for Economic Development, and a member of the American Law Institute. She also serves on the Council of the Administrative Conference of the United States, to which she was appointed by President Obama in July 2010. Ms. Sherburne is a member of our Audit Committee and our Personnel and Compensation Committee.

The following experience, qualifications, attributes and/or skills led the Board to conclude that Ms. Sherburne should serve as a director: her professional background and experience, current and previously held senior-executive level positions, senior level experience in positions in the federal government, and her extensive experience in policy, compliance, corporate governance and government matters and in regulated industries.

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Item 1 on Proxy Card Election of Directors (continued)

Michael T. Smith *Retired Chairman of the Board and Chief Executive Officer of Hughes Electronics Corporation* ***Director since*** 2001 ***Age:*** 72	Michael T. Smith is the retired Chairman of the Board and Chief Executive Officer of Hughes Electronics Corporation, having held such positions from October 1997 until May 2001. Mr. Smith is also a director of FLIR Systems, Inc., which produces infrared cameras, thermal imaging software and temperature measurement devices, WABCO Holdings, Inc., which provides electronic and electromechanical products for the automotive industry, and Zero Gravity Solutions, Inc., an agricultural biotechnology company. Mr. Smith was a director of Ingram Micro Corporation, a technology sales, marketing and logistics company, from 2001 until June 2014, Alliant Techsystems, Inc. (ATK), an advanced weapon and space systems company, from 1997 to 2009, and Anteon International Corporation, an information technology and systems engineering solutions company, from 2005 to 2006. Mr. Smith is a member of the Council of Chief Executives and the former chairman of the Aerospace Industries Association, an industry trade organization, and is a charter member of the Electronic Industries Foundation Leadership Council. Mr. Smith is the Chair of our Nominating and Governance Committee and a member of our Audit Committee. The following experience, qualifications, attributes and/or skills led the Board to conclude that Mr. Smith should serve as a director: his professional background and experience, previously held senior-executive level positions, his service on other public and private company boards, Teledyne board experience, board attendance and participation, and his extensive experience with companies in the aerospace, defense, engineering, communications and manufacturing sectors.

The Board of Directors Recommends

a Vote FOR the Election of the Nominees.

Continuing Directors Terms Expire at 2017 Annual Meeting (Class III)

Ms. Austin is the President of Austin Investment Advisors, a private investment and consulting firm, a position she has held since 2004. From July 2009 through July 2010, Ms. Austin also

Roxanne S. Austin

President of Austin Investment Advisors

Director since 2006

Age: 55

served as the President and Chief Executive Officer of Move Networks, Inc., a provider of Internet television services. Ms. Austin served as President and Chief Operating Officer of DIRECTV, Inc. from June 2001 to December 2003. She also served as Executive Vice President of Hughes Electronics Corporation (Hughes) and as a member of its executive committee until December 2003. From 1997 to June 2001, Ms. Austin was the Corporate Senior Vice President and Chief Financial Officer of Hughes. Prior thereto, she held various senior financial positions with Hughes. Prior to joining Hughes in 1993, Ms. Austin was a partner at the accounting firm Deloitte & Touche LLP. Ms. Austin is also a director of Target Corporation (having served as the retailer s interim Board chairwoman during part of 2014), Abbott Laboratories and AbbVie, Inc. From 2008 to 2016 she also served as a director of Telefonaktiebolaget LM Ericsson. Ms. Austin is a member of our Personnel and Compensation Committee and our Nominating and Governance Committee.

The following experience, qualifications, attributes and/or skills led the Board to conclude that Ms. Austin should serve as a director: her professional background and experience, current and previously held senior-executive level positions, her service on other public and private company boards, Teledyne board experience, board attendance and participation, and her extensive experience in electronics, communications, aerospace, defense and related industries and specialized expertise in public company accounting and mergers and acquisitions and most recently cyber security.

Item 1 on Proxy Card Election of Directors (continued)

Frank V. Cahouet

Retired Chairman and Chief Executive Officer of Mellon Financial Corporation

Director since 1999

Age: 83

Frank V. Cahouet served as the Chairman, President and Chief Executive Officer of Mellon Financial Corporation, a bank holding company, and Mellon Bank, N.A., prior to his retirement on December 31, 1998. Mr. Cahouet has served as a director of NBH Holdings Corp., a bank holding company, since 2009. Mr. Cahouet served as a director of Korn/Ferry International, a provider of recruiting services, from 1997 to 2009, and Saint-Gobain Corporation, a manufacturer of glass, ceramics, plastics and cast iron, from 1992 to 2008. Mr. Cahouet is a trustee emeritus of both Carnegie Mellon University and the University of Pittsburgh. He is on the board of regents of Saint Vincent Seminary, a member of the board of trustees for the Historical Society of Western Pennsylvania and a council member of The Pennsylvania Society. He is a director of The World Affairs Council of Pittsburgh and is director emeritus of Extra Mile Education Foundation. In addition, he serves on the Advisory Board of the Little Sisters of the Poor. Mr. Cahouet is a member of our Audit Committee and our Nominating and Governance Committee.

The following experience, qualifications, attributes and/or skills led the Board to conclude that Mr. Cahouet should serve as a director: his professional background and experience, previously held senior-executive level positions, his service on other public and private company boards, leadership positions with private foundations, Teledyne board experience, board attendance and participation, and his extensive experience in accounting, finance, banking and asset management.

Mr. Cahouet will retire on April 27, 2016, the date of the 2016 Annual Meeting.

Kenneth C. Dahlberg

Kenneth C. Dahlberg served as Chief Executive Officer of Science Applications International Corporation (SAIC), a research and engineering firm specializing in information systems and technology, from November 2003 through September 2009, and served as Chairman of the Board of Directors of SAIC from July 2004 until his retirement in June 2010. Prior to joining SAIC, Mr. Dahlberg served as executive vice president of General Dynamics where he was responsible for its Information Systems and Technology Group and prior to that served as President and Chief Operating Officer of Raytheon Systems. Mr. Dahlberg is also a director of Motorola Solutions, Inc., a provider of mission critical communication products and services, and of Parsons Corp., a privately-held engineering, construction, technical and management services firm. Mr. Dahlberg is a member of our Personnel and Compensation Committee and our Audit Committee.

Retired Chairman of the Board and Former Chief Executive Officer of Science Applications International Corporation (SAIC)

Director since 2006

Age: 71

The following experience, qualifications, attributes and/or skills led the Board to conclude that Mr. Dahlberg should serve as a director: his professional background and experience, previously held senior-executive level positions, his service on other public company boards, his Teledyne board experience, board attendance and participation, his extensive experience with companies in the defense industry and his background and experience in design engineering, production, system development and services.

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Item 1 on Proxy Card Election of Directors (continued)

Robert A. Malone

Executive Chairman, President

and Chief Executive Officer of

First Sonora Bancshares, Inc.

Director since 2015

Age: 64

Mr. Malone has been the Executive Chairman, President and Chief Executive Officer of First Sonora Bancshares, Inc., a community bank, since 2014. Previously, Mr. Malone served as the President and Chief Executive Officer of The First National Bank of Sonora, Texas, a community bank owned by First Sonora Bancshares, Inc., from 2009 to 2014. Mr. Malone was also an Executive Vice President of BP plc, an integrated oil and gas company, and Chairman of the Board and President, BP America Inc. from 2006 to 2009. Mr. Malone has been a director of Halliburton Company, a provider products and services to the energy industry, since 2009, and has been a director of Peabody Energy Corporation, a coal mining company, since 2009, and its Non-Executive Chairman of the Board since 2016. Mr. Malone is a member of our Audit Committee and our Personnel and Compensation Committee.

The following experience, qualifications, attributes and/or skills led the Board to conclude that Mr. Malone should serve as a director: his professional background and experience, previously held senior-executive level positions, his service on other public company boards and his extensive experience with companies in the oil and gas industry and in banking and his expertise in compliance with safety regulations.

Continuing Directors Terms Expiring at 2018 Annual Meeting (Class I)

Simon M. Lorne is the Vice Chairman and Chief Legal Officer of Millennium Management LLC, a hedge fund management company. From March 1999 to March 2004, prior to the time he became a Teledyne director, Mr. Lorne was a partner with Munger Tolles & Olson, LLP, a law firm whose services Teledyne has used from time to time. Mr. Lorne has also previously served as a Managing Director, with responsibility for Legal Compliance and Internal Audit of Citigroup/Salomon Brothers and as the General Counsel at the SEC in Washington, D.C. Mr. Lorne served as a director of Opsware, Inc., a provider of data center automation software, from 2000 to 2007. Since 1999, Mr. Lorne has been co-director of Stanford Law School s Directors College. Since 2011, Mr. Lorne has served on the Advisory Council of the Public Company

Simon M. Lorne

Vice Chairman and Chief Legal

Officer of Millennium

Management LLC

Director since 2004

Age: 70

Accounting Oversight Board. Mr. Lorne is the Chair of our Audit Committee and a member of our Nominating and Governance Committee.

The following experience, qualifications, attributes and/or skills led the Board to conclude that Mr. Lorne should serve as a director: his professional background and experience, current and previously held senior-executive level positions, senior level experience at a government regulator, his service on other public and private company boards, his Teledyne board experience, board attendance and participation, and his specialized expertise in finance, mergers and acquisitions, securities laws and corporate governance.

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Item 1 on Proxy Card Election of Directors (continued)

Paul D. Miller

Retired Chairman of Alliant Techsystems, Inc. (ATK)

Director since 2001

Age: 74

Paul D. Miller was the Chairman of the Board of Alliant Techsystems, Inc. (ATK), an advanced weapon and space systems company, from January 1999 until April 2005 and served as Chief Executive Officer of ATK from January 1999 until October 2004. Prior to retirement from the U.S. Navy in 1994, Admiral Miller served as Commander-in-Chief, U.S. Atlantic Command and NATO Supreme Allied Commander Atlantic. He is also a director of Donaldson Company, Inc., a manufacturer of filtration systems, and Huntington Ingalls Industries, Inc., a shipbuilding company. Admiral Miller is a member of our Audit Committee and our Nominating and Governance Committee. The Board has recognized Admiral Miller as the Classified Program Review Director to review on behalf of the Board of Directors Teledyne s U.S. Government classified programs as needed.

The following experience, qualifications, attributes and/or skills led the Board to conclude that Admiral Miller should serve as a director: his executive, professional and military background and experience, current and previously held senior-executive level positions, his service on other public and private company boards, Teledyne board experience, board attendance and participation, his extensive experience with and leadership positions in the defense community, his knowledge of finance, manufacturing, human resources, corporate governance and audit functions and his extensive understanding of strategic planning, tactical business decision making and risk management.

Wesley W. von Schack

Wesley W. von Schack is the Chairman of AEGIS Insurance Company, a position he has held since 2007. Dr. von Schack currently serves as the lead director and Chairman of the Executive Committee of The Bank of New York Mellon Corporation, but has notified us that he has resigned from its Board of Directors effective as of its April 12, 2016 Annual Meeting of Stockholders. He also serves as the lead director of Edward Lifesciences Corporation, a company engaged in the science of heart valves and hemodynamic monitoring. Dr. von Schack served as Chairman, President and Chief Executive Officer of Energy East Corporation, a diversified energy services company, from 1996 to September 2009. Dr. von Schack served as a director of Mellon Financial Corporation from 1989 to 2007. Dr. von Schack is director emeritus of the Gettysburg Foundation, and is a member of the President s Council Peconic Land Trust. Dr. von Schack is a member of our Nominating and Governance Committee and our Personnel and Compensation Committee.

Chairman of AEGIS Insurance

Company and Former

Chairman, President and

Chief Executive Officer of

Energy East Corporation

Director since 2006

Age: 71

The following experience, qualifications, attributes and/or skills led the Board to conclude that Dr. von Schack should serve as a director: his professional background and experience, previously held senior-executive level positions, his service on other private and public company boards, his leadership positions at private foundations, his Teledyne board experience, board attendance and participation, and his extensive experience with companies in the energy, banking, financial asset management sectors and in regulated industries.

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Committees of Our Board of Directors

Our Board of Directors has established an Audit Committee, a Nominating and Governance Committee and a Personnel and Compensation Committee. From time to time, our Board of Directors may establish other committees. Each of the Audit Committee, Nominating and Governance Committee and Personnel and Compensation Committee has a written charter that can be accessed on our website at www.teledyne.com under Corporate Information Governance .

Audit Committee

The members of the Audit Committee are:

Simon M. Lorne, Chair

Frank V. Cahouet

Kenneth C. Dahlberg

Robert A. Malone (beginning July 1, 2015)

Paul D. Miller

Jane C. Sherburne

Michael T. Smith

The Audit Committee held eight meetings in 2015 (including two joint meetings with the Board).

The primary purpose of the Audit Committee is to assist the Board s oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, the qualification and the independence of our independent auditor, and the performance of our internal audit function and independent auditor. As provided in its charter, the Audit Committee is directly responsible for the appointment, retention, compensation, oversight, evaluation and termination of our independent auditor (including resolving disagreements between management and the independent auditor regarding financial reporting). The Audit Committee has been designated as the qualified legal compliance committee. In carrying out its responsibilities, the Audit Committee undertakes to do many things, including:

- Retain and approve the terms of the engagement and fees to be paid to the independent auditor.
- Evaluate the performance of the independent auditor.
- Receive written periodic reports from the independent auditor delineating all relationships between the independent auditor and us.
- Review with the independent auditor any problems or difficulties the independent auditor may have encountered and any management letter provided by the independent auditor and our response to that letter.
- Review our annual audited financial statements and the report thereon and quarterly unaudited financial statements with the independent auditor and management prior to publication of such statements.
- Discuss with management the earnings press releases (including the type of information and presentation of information).

- Review major issues regarding accounting principles and financial statement presentations and judgments made in connection with the preparation of our financial statements.
- Meet periodically with management to review our financial risk exposures and the steps management has taken to monitor and control such exposures.
- Review with our General Counsel legal matters that may have a material impact on the financial statements, our compliance policies and any material reports or inquiries received from regulators or governmental agencies.

The charter of the Audit Committee was last amended and restated on December 15, 2009. The Audit Committee charter provides that our senior internal auditing executive reports directly and separately to the Chair of the Audit Committee and the Chief Executive Officer. As required by the charter, our Audit Committee also has established procedures for the receipt, retention and treatment of complaints regarding accounting, internal controls and auditing matters. See Corporate Governance Sarbanes-Oxley Disclosure Committee at page 6.

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Committees of Our Board of Directors (continued)

The Audit Committee meets the size, independence and financial sophistication and expertise requirements of the NYSE, including the enhanced independence requirements for Audit Committee members under Exchange Act Rule 10A-3. The Board of Directors has determined that Simon M. Lorne is an audit committee financial expert within the meaning of the SEC regulations and all of the members are independent and financially literate under the NYSE listing standards. Our Corporate Governance Guidelines provide that no director may serve as a member of the Audit Committee if such director serves on the audit committees of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of such director to effectively serve on the Audit Committee. Any such determination must be disclosed in the annual Proxy Statement. None of our Audit Committee members serve on more than two other audit committees of public companies. Besides our Audit Committee, Mr. Dahlberg and Mr. Smith each simultaneously serves on the audit committee of one other public company.

The report of the Audit Committee is included under Item 2 on Proxy Card Ratification of Appointment of Independent Registered Public Accounting Firm at page 17.

Nominating and Governance Committee

The members of the Nominating and Governance Committee are:

Michael T. Smith, Chair

Roxanne S. Austin

Frank V. Cahouet

Charles Crocker

Simon M. Lorne

Paul D. Miller

Wesley W. von Schack

The Nominating and Governance Committee held three meetings in 2015.

The Nominating and Governance Committee undertakes to:

- Identify individuals qualified to become members of the Board of Directors and to make recommendations to the Board of Directors with respect to candidates for nomination for election at the next Annual Meeting of stockholders or at such other times when candidates surface or are proposed and, in connection therewith, consider suggestions submitted by our stockholders.
- Develop and recommend to the Board of Directors corporate governance guidelines.
- Determine and make recommendations to the Board of Directors with respect to the criteria to be used for selecting new members of the Board of Directors.
- Oversee the annual process of evaluation of the performance of our Board of Directors and committees.

- Make recommendations to the Board of Directors concerning the membership of committees of the Board and the chairpersons of the respective committees.
- Make recommendations to the Board of Directors with respect to the remuneration paid and benefits provided to members of the Board in connection with their service on the Board or on its committees.
- Administer our formal compensation programs for directors, including the Administrative Rules of the 2014 Incentive Award Plan Related to Non-Employee Director Restricted Stock Unit Awards and Fees.
- Make recommendations to the Board of Directors concerning the composition, organization and operations of the Board of Directors and its committees, including the orientation of new members and the flow of information.
- Evaluate Board and committee tenure policies, as well as policies covering the retirement or resignation of incumbent directors.
- Evaluate proposals of stockholders intended to be presented at stockholder meetings.
- Make recommendations to the Board of Directors as to whether to accept or reject a director resignation, or take other action, where a director fails to receive a majority vote as specified under the our Amended and Restated Bylaws and Corporate Governance Guidelines.

The charter of the Nominating and Governance Committee was last amended and restated on October 23, 2012. The members of the Nominating and Governance Committee are independent under the NYSE listing standards.

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Committees of Our Board of Directors (continued)

The Nominating and Governance Committee will consider stockholder recommendations for nominees for director. Any stockholders interested in suggesting a nominee should follow the procedures outlined in Other Information 2017 Annual Meeting and Stockholder Proposals at page 61. Stockholder recommendations for nominees will be given the same consideration as nominees for director from other sources.

The Nominating and Governance Committee utilizes a variety of methods for identifying and evaluating all nominees for directors. The Committee periodically assesses the appropriate size of the Board and whether vacancies on the Board are expected due to retirement, change in professional status or otherwise. Candidates may come to the attention of the Committee through current Board members, members of our management, stockholders and other persons. The Committee to date has not engaged a professional search firm. Candidates are evaluated at meetings of the Committee and may be considered at any point during the year.

As stated in the Corporate Governance Guidelines, nominees for director are to be selected on the basis of, among other criteria, experience, knowledge, skills, expertise, integrity, diversity, ability to make analytical inquiries, understanding of or familiarity with our business, products or markets or similar business, products or markets, and willingness to devote adequate time and effort to Board responsibilities. The Committee may establish additional criteria and is responsible for assessing the appropriate balance of criteria required of Board members. Although we do not have a written policy with respect to Board diversity, the Nominating and Governance Committee and the Board believe that a diverse board leads to improved Company performance by encouraging new ideas, expanding the knowledge base available to management and fostering a boardroom culture that promotes innovation and vigorous deliberation. Consequently, when evaluating potential nominees, the Committee considers individual characteristics that may bring diversity to the Board, including gender, race, national origin, age, professional background, unique skill sets and areas of expertise.

Personnel and Compensation Committee

The members of the Personnel and Compensation Committee are:

Charles Crocker, Chair

Roxanne S. Austin

Kenneth C. Dahlberg

Robert A. Malone (beginning July 1, 2015)

Jane C. Sherburne

Wesley W. von Schack

The Personnel and Compensation Committee held five meetings in 2015.

The Personnel and Compensation Committee s principal authority and responsibilities include:

Make recommendations to the Board of Directors concerning executive management organization matters generally.

In the area of compensation and benefits, make recommendations to the Board of Directors concerning employees who are also directors, review and approve the corporate goals and objectives relevant to the chief executive officer and other executive officer compensation, evaluate chief executive officer and other executive officer performance in light of those goals and objectives, and determine and approve all compensation of the chief executive officer and other executive officers based on this evaluation.

Periodically, and when appropriate, review and approve the following as they affect the chief executive officer and executive officers: (a) any employment agreements and severance arrangements; (b) any change-in-control agreements and change-in-control provisions affecting any elements of compensation and benefits; and (c) any special or supplemental compensation and benefits for the chief executive officer and executive officers and individuals who formerly served as chief executive officer and executive officers, including supplemental retirement benefits and the perquisites provided to them during and after employment.

Oversee the Company s compliance with the requirement under the NYSE rules that, with limited exceptions, require stockholder approval for equity compensation plans.

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Committees of Our Board of Directors (continued)

- Subject to such stockholder approval, or as otherwise required by applicable law, establish, amend and, where appropriate, terminate incentive compensation plans, equity-based plans, benefit plans, and other bonus arrangements for the Company; and pursuant to the terms of such plans, as may at the time be in effect, administer such plans and make appropriate interpretations and determinations and take such actions as shall be necessary or desirable thereunder, including approval of awards granted pursuant to such plans and repurchase of securities from terminated employees.
- Make recommendations to the Board of Directors concerning policy and procedures relating to employee benefits and employee benefit plans, including incentive compensation plans and equity based plans and applicable clawback provisions.
- Oversee our formal incentive compensation programs, including equity-based plans.
- Make recommendations to the Board of Directors concerning matters relating to stockholder votes on executive compensation and the frequency of those votes.

While reviewed annually, the charter of the Personnel and Compensation Committee was last amended and restated on December 17, 2013. The members of the Personnel and Compensation Committee are independent under the NYSE listing standards.

Our Chief Executive Officer works with the Personnel and Compensation Committee Chair, our Senior Vice President, General Counsel and Secretary and our Vice President of Human Resources in establishing the agenda for the Committee and makes compensation recommendations for the named executives (other than himself). The Personnel and Compensation Committee s Chair reports the committee s recommendations on executive compensation to the Board. The Personnel and Compensation Committee has the authority, under its charter, to obtain advice and assistance from internal or external legal, accounting or other advisors. The Personnel and Compensation Committee has the sole authority and resources to retain and terminate any compensation consultant to be used to assist in the evaluation of the Chief Executive Officer s or other executive officers compensation and has sole authority to approve the consultant s fees and other retention terms. As discussed below under Compensation Discussion and Analysis, the Committee retained Exequity LLP to assist the Committee in fulfilling its responsibilities in 2015. The Personnel and Compensation Committee may delegate its responsibility to control and manage the plan assets of our employee benefit plans. In addition, under the terms of our stock incentive plans, the Personnel and Compensation Committee may delegate its powers and authority under the stock incentive plan as it deems appropriate to a subcommittee and/or designated officers and, as discussed below under Compensation Discussion and Analysis, the Personnel and Compensation Committee has made a limited delegation of authority to grant stock options to our Chief Executive Officer pursuant to this authority.

The report of the Personnel and Compensation Committee is included under Executive and Director Compensation at page 44.

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Item 2 on Proxy Card Ratification of Appointment of Deloitte & Touche LLP as the Company s Independent Registered Public Accounting Firm

The Audit Committee has appointed Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2016. Deloitte & Touche LLP has served as our independent registered public accounting firm since April 2015. The Audit Committee believes that Deloitte & Touche LLP is knowledgeable about our operations and accounting practices and is well qualified to act in the capacity of independent registered public accounting firm. The appointment of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal 2016 is subject to the continued approval of the Audit Committee.

Ernst & Young LLP audited our consolidated financial statements for the fiscal year ended December 28, 2014 and, during 2015, served as the Company s independent registered public accounting firm until May 1, 2015.

Although the appointment of an independent registered public accounting firm is not required to be approved by the stockholders, the Audit Committee and the Board of Directors believe that stockholders should participate in such selection through ratification. The proposal to ratify the Audit Committee s appointment of Deloitte & Touche LLP will be approved by the stockholders if it receives the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the proposal. Unless otherwise instructed, the individuals named as proxies in the proxy card will vote each proxy received by them in favor of ratifying the selection of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year 2016. If you specifically abstain from voting on the proposal, your shares will not affect the outcome of the vote. Broker non-votes, if any, are included in determining the presence of a quorum at the Annual Meeting, but will not be counted as being entitled to vote on the proposal and will not affect the outcome of the vote. If the stockholders do not ratify the selection of Deloitte & Touche LLP, the Audit Committee will reconsider the appointment of an independent registered public accounting firm. Notwithstanding the ratification of Deloitte & Touche LLP as our independent auditors, the Audit Committee, in its discretion, may direct appointment of new independent auditors at any time during the year if the Audit Committee believes that such a change would be in the best interests of Teledyne and its stockholders. It is expected that representatives of Deloitte & Touche LLP will be present at the meeting and will have an opportunity to make a statement and respond to appropriate questions.

The Board of Directors Recommends

a Vote FOR Ratification of the Appointment

of Deloitte & Touche LLP as the

Company s Independent Registered Public Accounting Firm.

Fees Billed by Independent Registered Public Accounting Firm

The following table sets forth fees billed by (i) Deloitte & Touche LLP for professional services rendered for the 2015 fiscal year and (ii) Ernst & Young LLP for the 2014 fiscal year and the period from December 29, 2014 through May 1, 2015 (in thousands).

Participants	2015 Deloitte & Touche LLP	2015 Ernst & Young LLP	2014 Ernst & Young LLP
Total Audit Fees(1)	$2,846.4	$197.2	$4,317.8
Total Audit-Related Fees(2)		39.2	76.5
Tax Fees(3)	905.2	216.3	366.4

All Other Fees			
Total	$3,751.6	$452.7	$4,760.7

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Item 2 on Proxy Card Ratification of Appointment of Deloitte & Touche LLP as the Company s Independent Registered Public Accounting Firm (continued)

(1) Aggregate fees billed for professional services rendered for the audit of our annual financial statements and internal control pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, for statutory audits of certain subsidiaries, for the reviews of financial statements included in our quarterly reports on Form 10-Q and accounting consultations on matters reflected in the financial statements.

(2) Fees related to employee benefit plan audits and environmental financial assurances services.

(3) Tax fees related to U.S. Federal and State tax compliance services and tax advisory services for our foreign subsidiaries.

Change of Independent Public Accountants

As previously reported in our Current Report on Form 8-K, dated April 14, 2015, as amended on May 1, 2015, the Audit Committee conducted a competitive process to determine the Company s independent registered public accounting firm for the 2015 fiscal year. The Audit Committee invited several independent registered public accounting firms, including Ernst & Young, LLP, our then current independent registered public accounting firm, to participate in this process.

Following a competitive review and receipt of proposals from the independent registered public accounting firms that participated in the process, the Audit Committee recommended and authorized the dismissal of Ernst & Young, LLP as our independent registered public accounting firm, and authorized the engagement of Deloitte & Touche LLP to serve as our independent registered public accounting firm for the 2015 fiscal year, effective as of the date of Ernst & Young, LLP s completion of the audit services for the fiscal quarter ended March 29, 2015, and the filing of our related Quarterly Report on Form 10-Q. On May 1, 2015, we filed our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2015.

No audit report of Ernst & Young LLP on our consolidated financial statements for either of the past two fiscal years contained an adverse opinion or a disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope, or accounting principles.

During our two most recent fiscal years and subsequent interim period preceding Ernst & Young LLP s dismissal, there was no disagreement (as described in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) with Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures which, if not resolved to the satisfaction of Ernst & Young LLP, would have caused Ernst & Young LLP to make reference to the matter in their report.

We provided Ernst & Young LLP with a copy of the disclosures in our Current Report on Form 8-K and the amendment thereto, prior to filing with the SEC and requested Ernst & Young LLP to furnish us with letters addressed to the SEC stating whether Ernst & Young LLP agrees with the statements made by us in response to Item 304(a) of Regulation S-K and, if not, stating the respects in which it does not agree. A copy of Ernst & Young LLP s letters, dated April 14, 2015 and May 1, 2015, are attached as Exhibit 16.1 to the Current Report on Form 8-K and the amendment thereto.

On April 14, 2015, the Audit Committee approved the appointment of Deloitte & Touche LLP as our independent registered public accounting firm to audit our consolidated financial statements for the 2015 fiscal year, and to perform a review of our condensed consolidated interim financial statements for the second and third fiscal quarters of fiscal 2015.

During our two most recent fiscal years and subsequent interim period preceding Deloitte & Touche LLP s engagement, neither the Company nor anyone on its behalf consulted Deloitte & Touche LLP regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and no written report or oral advice was provided by Deloitte & Touche LLP to us that Deloitte & Touche LLP concluded was an important factor considered by our in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a disagreement (as described in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

Guidelines Regarding External Auditing Firms

Our Audit Committee has adopted guidelines relating to the rendering of services by external auditors. The principal terms are as follows:

Pre-Approval of Audit Services. The guidelines require the approval of the Audit Committee prior to retaining any firm to perform any Audit Services. Audit Services include the services necessary to audit our consolidated financial statements for a specified fiscal year and the following audit and audit-related services: (a) Statement on Auditing

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Item 2 on Proxy Card Ratification of Appointment of Deloitte & Touche LLP as the Company s Independent Registered Public Accounting Firm (continued)

Standards No. 71 quarterly review services; (b) regulatory and employee benefit plan financial statement audits; and (c) compliance and statutory attestation services for our subsidiaries. Subject to limited exceptions, the policies further provide that the Audit Committee must pre-approve the engagement of our independent registered public accounting firm to provide any services other than Audit Services. The Chair of the Audit Committee may, however, pre-approve the engagement of our independent registered public accounting firm for such non-audit services to the extent the fee is reasonably expected to be less than $150,000. Pre-approval will not be required for de minimis services if (i) the costs of such services in the aggregate are less than $150,000 or 5% of the total fees of our independent registered public accounting firm, whichever is lesser during such fiscal year, (ii) such services were not recognized by us at the time of the engagement to be non-audit services; and (iii) such services are promptly and subsequently approved by the Audit Committee or the Chair of the Audit Committee (if reasonably expected to be less than $150,000 or 5% of the total fees of our independent registered public accounting firm, whichever is lesser) prior to completion of the audit.

Executive Relationship Limitation. The guidelines provide that no firm shall perform for us any Audit Service if the Company s Chief Executive Officer, Chief Financial Officer, Controller, or Chief Accounting Officer, or any person serving in an equivalent position for the Company, was employed by that firm and participated in any capacity in the Company s audit during the one-year period preceding the date of the initiation of the audit.

Non-Audit Services Limitations. If the fee for any non-audit services is reasonably expected to be $350,000 or more, we must seek at least one competing bid from another firm prior to engaging our independent registered public accounting firm, unless there are exceptional circumstances or if it relates to the public offering of our securities. Management will determine whether awarding the assignment to our independent registered public accounting firm would be advantageous to us because our independent registered public accounting firm could utilize its deeper knowledge of the Company to do a more efficient and effective job than another provider of services or could perform the services for a lower fee. While price will be a factor in evaluating competing proposals, professional competence, client service and experience in handling similar matters are also key factors. Prior to retaining our independent registered public accounting firm to perform services other than Audit Services, management will consider whether such retention could impair our independent registered public accounting firm s independence.

The guidelines prohibit us from engaging our independent registered public accounting firm to perform any of the following non-audit services or other services that the Public Company Accounting Oversight Board determines by regulation to be prohibited: bookkeeping or other services related to accounting records or financial statements; financial information systems design and implementation; appraisal or valuation services, fairness opinions, or contribution-in-kind reports; actuarial services; internal auditing outsourcing services; management functions or human resources; broker or dealer, investment advisor, or investment banking services; individual tax services to executives roles that involve financial reporting responsibility; or legal services and expert services unrelated to the audit.

*Hiring Limitation***.** To avoid appearances of conflicts of interest, we will not hire before a one-year cooling-off period into either a finance function or an audit function personnel of our independent registered public accounting firm who are at the level of partner, principal or manager if such person worked on the audit of our consolidated financial statements during the fiscal year just ended or if such person is working on the audit of our consolidated financial statements for the current fiscal year.

Audit Partner Rotation. The guidelines provide that neither the lead or coordinating partner of our independent registered public accounting firm having primary responsibility for the our audit, nor the partner responsible for reviewing our audit, shall perform Audit Services for the Company for more than five consecutive fiscal years. An audit director can perform Audit Services for up to seven consecutive fiscal years.

On a quarterly basis, our independent registered public accounting firm reviews with the Audit Committee all audit, non-audit and tax services it provides to us. For 2015, all audit and non-audit services rendered by our independent registered public accounting firm were pre-approved in accordance with our policies.

In making its recommendation to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the 2016 fiscal year, the Audit Committee considered whether the provision of non-audit services by Deloitte & Touche LLP is compatible with maintaining Deloitte & Touche LLP s independence.

Audit Committee Report

The following report of the Audit Committee is included in accordance with SEC rules and regulations. It does not constitute soliciting material, is not deemed filed with the SEC and is not incorporated by reference into any of our filings under the Exchange Act.

Report of the Audit Committee

The following is the report of the Audit Committee with respect to the audited financial statements for the fiscal year ended January 3, 2016 (the Financial Statements) of Teledyne Technologies Incorporated and its consolidated subsidiaries (the Company).

The responsibilities of the Audit Committee are set forth in the Audit Committee Charter, as amended and restated as of December 15, 2009, which has been adopted by the Board of Directors. The Audit Committee is comprised of seven directors. The Company s Board of Directors has determined that each of the members of the Audit Committee is independent in accordance with the applicable rules of the New York Stock Exchange. The Board of Directors has also determined that at least one director has financial management expertise under New York Stock Exchange listing standards and that Simon M. Lorne is an audit committee financial expert within the meaning of the Securities and Exchange Commission regulations.

Management is responsible for the preparation, presentation and integrity of the Company s financial statements, the Company s internal controls and financial reporting process and the procedures designed to assure compliance with accounting standards and applicable laws and regulations. Deloitte & Touche LLP (Deloitte & Touche), the Company s independent registered public accounting firm, is responsible for performing an independent audit of the Company s Financial Statements and expressing an opinion as to their conformity with generally accepted accounting principles. The Audit Committee reviewed and discussed the Company s Financial Statements with management and Deloitte & Touche, and discussed with Deloitte & Touche the matters required to be discussed by Auditing Standard No. 16, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board. The Audit Committee has received written disclosures and the letter from Deloitte & Touche required by applicable requirements of the Public Company Accounting Oversight Board regarding Deloitte & Touche s communication with the Audit Committee concerning independence and has discussed with Deloitte & Touche its independence.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are not, and do not represent themselves to be, performing the functions of auditors or accountants. Members of the Audit Committee may rely without independent verification on the information provided to them and on the representations made by management and Deloitte & Touche. Accordingly, the Audit Committee s oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee s considerations and discussions referred to above do not assure that the audit of the Company s financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that the Company s auditors are in fact independent .

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the Financial Statements be included in the Company s Annual Report on Form 10-K for the fiscal year ended January 3, 2016, for filing with the Securities and Exchange Commission.

Submitted by the Audit Committee of the Board of Directors:

Simon M. Lorne, Chair

Frank V. Cahouet

Kenneth C. Dahlberg

Robert A. Malone

Paul D. Miller

Jane C. Sherburne

Michael T. Smith

February 23, 2016

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Item 3 on Proxy Card Advisory Resolution on Executive Compensation

In accordance with Section 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act), which was added under the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are asking stockholders to approve an advisory resolution on the Company s executive compensation as reported in this Proxy Statement. As described below in the Compensation Discussion and Analysis section of this Proxy Statement, our executive compensation program is designed to attract and retain high quality executives and to align the interest of management with the interests of stockholders by rewarding both short- and long-term performance.

Teledyne s business confronted a number of challenges in 2015, including continued weakness in energy markets, broad-based contraction in many of the other commercial markets in which we participate, a strong U.S. dollar which burdened international sales, and weak global growth generally. We believe that our performance-oriented executive compensation program incentivized management to respond aggressively to a challenging business environment and appropriately reflected the Company s operating performance in 2015.

- Revenue and net income attributable to Teledyne decreased 4.0% and 10.1%, respectively, from 2014 results.
- Diluted earnings per share in 2015 were $5.44, decreasing 5.4% from 2014.
- Our management team successfully implemented steps to reduce our cost structure, including consolidating businesses and our manufacturing footprint, streamlining our management and sales and marketing structures, eliminating many leased facilities, and making difficult workforce reductions.
- We maintained year-over-year GAAP operating margins, worked to stabilize revenue in our businesses most directly impacted by contracting markets and realized record sales in our commercial aerospace businesses.
- We continued our global expansion by making several foreign-domiciled bolt-on acquisitions.

We urge stockholders to read the Compensation Discussion and Analysis below, which describes in more detail how our executive compensation policies and procedures operate and are designed to achieve our compensation objectives, as well as the Summary Compensation Table and related compensation tables and narratives which provide detailed information on the compensation of our named executives. The Personnel and Compensation Committee believes that the policies and procedures articulated in the Compensation Discussion and Analysis are effective in achieving our goals and that the compensation of our named executives reported in this Proxy Statement has supported and contributed to the Company s success.

We are asking stockholders to approve the following advisory resolution at the 2016 Annual Meeting:

RESOLVED, that the compensation paid to the Company s named executives during 2015, as disclosed pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables and narrative in the Proxy Statement for the Company s 2016 Annual Meeting of Stockholders, is hereby APPROVED, on an advisory basis.

This advisory resolution, commonly referred to as a say on pay resolution, is not binding on the Board of Directors or the Company. Although non-binding, the Board and the Personnel and Compensation Committee will carefully review and consider the voting results when evaluating our executive compensation program.

The proposal to adopt the advisory resolution set forth above will be approved by the stockholders if it receives the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the proposal. If you sign and return your proxy card, your shares will be voted (unless you indicate to the contrary) to approve the advisory resolution. If you specifically abstain from voting on the proposal, your shares will not affect the outcome of the vote.

Following the 2011 Annual Meeting of Stockholders, our Board of Directors voted to hold a vote on this advisory say on pay resolution on an annual basis.

The Board of Directors Recommends

a Vote FOR Approval of the Advisory Resolution

on Executive Compensation.

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Other Business

We know of no business that may be presented for consideration at the meeting other than the three action items indicated in the Notice of Annual Meeting. If other matters are properly presented at the meeting, including a proposal to adjourn or postpone the meeting, the persons designated as proxies in your proxy card may vote at their discretion.

Following adjournment of the formal business meeting, Dr. Robert Mehrabian, Chairman, President and Chief Executive Officer, will address the meeting and will hold a general discussion period during which the stockholders will have an opportunity to ask questions about our Company and businesses.

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Stock Ownership Information

Section 16(a) Beneficial Ownership Reporting Compliance

The rules of the SEC require that we disclose late filings of reports of stock ownership (and changes in stock ownership) by our directors and statutory insiders. To the best of our knowledge, all of the filings for our directors and statutory insiders were made on a timely basis in 2015.

Five Percent Owners of Common Stock

The following table sets forth the number of shares of our common stock owned beneficially by each person known to us to own beneficially more than five percent of our outstanding common stock. As of February 15, 2016, we had received notice that the individuals and entities listed in the following table are beneficial owners of five percent or more of our common stock. In general, beneficial ownership includes those shares that a person or entity has the power to vote or transfer, and options to acquire common stock that are exercisable currently or within 60 days. As of February 15, 2016, we had 34,601,955 shares outstanding.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
FMR LLC 245 Summer Street Boston, MA 02210	3,738,680[(1)]	10.81%
BlackRock, Inc. 40 East 52nd Street, New York, NY 10022	3,164,150[(2)]	9.14%
The Vanguard Group, Inc. 100 Vanguard Blvd Malvern, PA 19355	2,238,584[(3)]	6.47%
Wellington Management Group LLP 280 Congress Street Boston, MA 02210	2,007,806[(4)]	5.80%
Singleton Group LLC 335 North Maple Drive, Suite 177 Beverly Hills, CA 90210	1,999,900[(5)]	5.78%
Cambridge Global Asset Management A Business Unit of CI Global Investments, Inc. and CI Investments, Inc. 2 Queen Street East, 20th Floor	1,779,430[(6)]	5.14%

Toronto, Ontario, M5C 3G7

1. Based on an amendment to Schedule 13G filed by FMR LLC with the SEC on February 12, 2016, reporting that it has sole voting power with respect to 207,675 shares and beneficially owns and has sole dispositive power with respect to 3,738,680 shares.

2. Based on an amendment to Schedule 13G filed with the SEC by BlackRock, Inc. on January 27, 2016, reporting that it has sole voting power with respect to 3,094,421 shares and beneficially owns and has sole dispositive power with respect to 3,164,150 shares.

3. Based on an amendment to Schedule 13G filed with the SEC by The Vanguard Group, Inc. on February 10, 2016, reporting sole voting power with respect to 54,842 shares, shared voting power with respect to 1,800 shares, shared dispositive power with respect to 53,029 shares and sole dispositive power with respect to 2,185,555 shares.
4. Based on an amendment to Schedule 13G filed with the SEC by Wellington Management Group LLP on February 11, 2016, reporting shared voting power with respect to 1,231,482 shares and shared dispositive power with respect to 2,007,806 shares.

5. Based on an amendment to Schedule 13G filed with the SEC by Singleton Group LLC, jointly with William W. Singleton, Christina Singleton Mednick and Donald E. Rugg, on July 31, 2007. Mr. Singleton, Ms. Mednick and Mr. Rugg reported that they share voting and dispositive power with respect to 1,999,900 shares in their capacities as managers of Singleton Group LLC. Mr. Rugg reported that he owned an additional 45 shares of common stock directly, with respect to which he has sole voting and dispositive power.

6. Based on a Schedule 13G filed with the SEC by Cambridge Global Asset Management on January 22, 2016, reporting sole voting and dispositive power with respect to 1,779,430 shares.

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Stock Ownership Information (continued)

Stock Ownership of Management

The following table shows, as of February 15, 2016, the number of shares of common stock beneficially owned by (i) our directors and executive officers named in the executive compensation tables, and (ii) our directors and Section 16 statutory officers as a group, including shares as to which a right to acquire ownership exists (for example, through the exercise of stock options) within the meaning of Rule 13d-3(d)(1) under the Exchange Act. Certain shares beneficially owned by our officers and directors may be held in accounts with third party brokerage firms.

Beneficial Owner	Number of Shares	Percent of Class
Robert Mehrabian	462,055(1)	1.33%
Susan L. Main	71,839(2)	*
Aldo Pichelli	156,769(3)	*
Rex D. Geveden(4)		*
Melanie S. Cibik	47,067(5)	*
Jason VanWees	69,013(6)	*
Roxanne S. Austin	29,494(7)	*
Frank V. Cahouet	138,387(8)	*
Charles Crocker	72,522(9)	*
Kenneth C. Dahlberg	48,793(10)	*
Simon M. Lorne	97,427(11)	*
Robert A. Malone		*
Paul D. Miller	57,327(12)	*
Jane C. Sherburne	2,091(13)	*
Michael T. Smith	74,281(14)	*
Wesley W. von Schack	37,598(15)	*
All directors and executives as a group (18 persons)	1,388,631(16)	3.93%

* Less than one percent.

1. The amount includes 180,132 shares held by The Mehrabian Living Trust, of which Dr. Mehrabian and his wife are trustees. The amount also includes 31,372 shares of unvested restricted stock subject to forfeiture and 213,301 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016.

2. The amount also includes 6,444 shares of unvested restricted stock subject to forfeiture, and 39,660 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016. Includes 1,150 shares acquired under Teledyne s Employee Stock Purchase Plan based on information received as of January 25, 2016. Also includes 1,000 shares held jointly by Ms. Main s spouse.

3. The amount includes 59,183 shares held by the Pichelli Living Trust, of which Mr. Pichelli and his wife are trustees. The amount also includes 9,879 shares of unvested restricted stock subject to forfeiture and 78,661 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016. Also includes 742 shares held in Teledyne s 401(k) plan and 802 shares acquired under Teledyne s Employee Stock Purchase Plan based on information received as of January 25, 2016.

4. Mr. Geveden resigned effective October 6, 2015.

5. The amount includes 3,898 shares of unvested restricted stock subject to forfeiture and 19,000 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016. Also includes 276 shares acquired under Teledyne s Employee Stock Purchase Plan and 2,874 shares held in Teledyne s 401(k) plan based on information received as of January 25, 2016.

6. The amount includes 3,729 shares of unvested restricted stock subject to forfeiture and 40,996 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016. Also includes 313 shares acquired under Teledyne s Employee Stock Purchase Plan and 2,449 shares held in Teledyne s 401(k) plan based on information received as of January 25, 2016.

7. The amount includes 2,000 shares held by the Thomas and Roxanne Austin Trust and 24,000 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016.
8. This amount includes 43,841 shares held by a revocable trust, of which Mellon Bank, N.A. is trustee. The amount also includes 14,952 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016.

9. The amount includes 13,513 shares held by The Crocker Revocable Trust, Charles Crocker, Trustee and 32,000 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016.

10. The amount includes 41,912 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016.

11. The amount includes 70,378 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016.

12. The amount includes 38,588 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016.

13. The amount includes 2,000 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016.

14. The amount includes 46,187 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016. The amount also includes 200 shares owned by Mr. Smith s wife, beneficial ownership of which is disclaimed.

15. The amount includes 8,898 shares held by The von Schack revocable Trust, 700 shares held by the Wesley von Schack Revocable Trust, and 28,000 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016.

16. This amount includes an aggregate of 707,637 shares of our common stock underlying stock options exercisable within 60 days of February 15, 2016, and 61,383 shares of restricted stock or restricted stock units subject to forfeiture. This amount also includes 200 shares owned by Mr. Smith s wife of which beneficial ownership is disclaimed. See also footnotes 1, 3, 7, 8, 9 and 15 for the number of shares held jointly and in trusts. This amount includes shares beneficially held by two Section 16 executive officers not listed on the table since they are not named executives.

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Stock Ownership Information (continued)

Phantom Shares. Prior to January 1, 2015, non-employee directors could elect to defer payment of up to 75% of their annual retainer fees and committee chair fees and 100% of their meeting fees under the Teledyne Technologies Incorporated Executive Deferred Compensation Plan (Deferred Compensation Plan). Non-employee directors could elect to have their deferred monies treated as though they are invested in our common stock (Teledyne Common Stock Phantom Fund). Deferrals to the Teledyne Common Stock Phantom Fund mirrored actual purchases of stock, but no actual stock is issued and the award is settled in cash. There are no voting or other stockholder rights associated with the Teledyne Common Stock Phantom Fund. As of February 15, 2016, the following directors had the following number of phantom shares of common stock under the Deferred Compensation Plan: Charles Crocker 451 phantom shares; Frank V. Cahouet 12,101 phantom shares; Simon M. Lorne 1,049 phantom shares; Paul D. Miller 3,607 phantom shares; and Michael T. Smith 781 phantom shares.

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Executive and Director Compensation

Compensation Discussion and Analysis

Executive Summary and 2015 Overview

Our Compensation Objectives and Programs:

Our objective with respect to executive compensation is to attract and retain executives of the highest quality and to align the interests of management with the interests of stockholders by rewarding both short- and long-term performance. The key components of our executive compensation program are reviewed annually for appropriateness and include a balanced mix of short- and long-term compensation and cash and equity compensation.

Our executive compensation program is performance-oriented and based on a mix of multiple metrics, financial targets and performance periods. Short-term cash compensation consists of competitive base salaries and the Annual Incentive Plan (AIP). The AIP is our annual performance-based cash bonus program that is designed to principally reward year-over-year profitable growth. Long-term compensation consists of stock options, performance-based restricted stock awards and a performance share program (PSP). Stock options vest over a three-year period and are intended to align executive compensation with absolute stock price appreciation. Performance-based restricted stock awards are intended to align executive compensation with total shareholder return relative to the Russell 2000 Index over a three-year performance period. The PSP is designed to reward executives for achieving a mix of both profitable long-term growth and total shareholder return relative to the Russell 2000 Index over a three-year performance period. In addition, the PSP also serves to reinforce long-term executive retention since payments under the PSP are subject to further holding requirements and made in three annual installments following the completion of the three-year performance cycle.

Compensation for senior executives at Teledyne is determined by the Personnel and Compensation Committee. The Personnel and Compensation Committee sets target amounts for overall compensation and specific compensation components and determines the mix of short- and long-term compensation in part by benchmarking Teledyne s pay against compensation at peer group companies. The Personnel and Compensation Committee receives advice and assistance in setting compensation from an independent compensation consultant.

At the Company s 2015 Annual Meeting of Stockholders held on April 22, 2015, the non-binding advisory vote on executive compensation passed with an approval rate of over 95% of the votes cast. The Personnel and Compensation Committee believes this level of stockholder support reflects a strong endorsement of our executive compensation policies and philosophy and as a result did not change its approach to executive compensation in 2015. The Personnel and Compensation Committee will continue to consider the outcome of the Company s say on pay votes when making future compensation decisions for the named executives.

Highlights of 2015 Performance:

Teledyne confronted a number of challenges in 2015, including continued weakness in energy markets, broad-based contraction in many of the other commercial markets in which we participate, a strong U.S. dollar which burdened international sales, and weak global growth generally. We believe that our performance-oriented executive compensation program incentivized management to respond aggressively to a challenging business environment and appropriately reflected the Company s operating performance in 2015.

Revenue and net income attributable to Teledyne decreased 4.0% and 10.1%, respectively, from 2014 results.
Diluted earnings per share in 2015 were $5.44, decreasing 5.4% from 2014.

Our management team successfully implemented steps to reduce our cost structure, including consolidating businesses and our manufacturing footprint, streamlining our management and sales and marketing structures, eliminating many leased facilities, and making difficult workforce reductions.
We maintained year-over-year GAAP operating margins, worked to stabilize revenue in our businesses most directly impacted by contracting markets and realized record sales in our commercial aerospace businesses.
We continued our global expansion by making several foreign-domiciled bolt-on acquisitions.

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Compensation Discussion and Analysis (continued)

Teledyne s stock price declined 15.2% in fiscal 2015, compared to a total shareholder return of negative 5.2% for the Russell 2000 Index. The graph below shows Teledyne s cumulative total stockholder return (i.e. price change plus reinvestment of dividends) on our common stock for the five fiscal years ending January 3, 2016, as compared to the Standard & Poor s 500 Composite Index, the Russell 2000 Index and the Standard & Poor s 1500 Industrials. The graph assumes $100 was invested on December 31, 2010. In accordance with the rules of the SEC, this presentation is not incorporated by reference into any of our registration statements under the Securities Act of 1933.

Summary of 2015 Executive Compensation

Teledyne s named executives for 2015 are:

- Robert Mehrabian, Chairman, President and Chief Executive Officer;
- Susan L. Main, Senior Vice President and Chief Financial Officer;
- Aldo Pichelli, Chief Operating Officer;
- Melanie S. Cibik, Senior Vice President, General Counsel and Secretary;
- Jason VanWees, Senior Vice President, Strategy and Mergers & Acquisitions; and
- Rex D. Geveden, Former Executive Vice President, Digital Imaging and Engineered Systems Segments

Teledyne s executive compensation in 2015 reflected the Company s financial performance, which was weaker than in 2014. A number of cost-reduction measures also impacted executive compensation. Anticipating headwinds from low energy prices, weak global growth and a strong U.S. dollar, the Personnel and Compensation Committee, with the support of executive management, elected to postpone annual stock option awards from 2015 to 2016. As stock options are a significant component of incentive compensation, long-term incentive and total compensation for named executives in 2015 were significantly less than in 2014. Effective February 28, 2015, the Company also froze accruals under the benefit restoration/pension equalization pension plan, which disproportionately impacted senior management participants, including our Chief Executive Officer. While not affecting 2015 compensation, in October 2015 the Personnel and Compensation Committee elected to not extend pay increases for 2016 to senior management, with the exception of those executives who received pay increases as a result of 2015 promotions.

Compensation Discussion and Analysis (continued)

AIP awards for 2015 received by named executives were also lower than 2014, reflecting overall operating performance that was below plan. On average, AIP awards for named executives were 20% lower than 2014 amounts. Dr. Robert Mehrabian, Teledyne s Chairman, President and Chief Executive Officer, received an AIP award of $1,004,500, which was 12% lower than his target amount and 35% lower than the amount of his 2014 AIP award.

In February 2015, the Personnel and Compensation Committee established a new three-year cycle under the PSP. For this 2015-2017 performance cycle, one-half of the award is payable in cash and one-half in shares of Teledyne common stock. Per SEC disclosure rules that require performance-based awards payable in stock to be recognized in the year in which the award is granted, the entire amount of the stock-based portion of this PSP award is included in the Summary Compensation Table as 2015 compensation under the column headed Non-Equity Incentive Plan Compensation, even though shares awarded, if any, would not be issued until after 2017.

In February 2015, the Personnel and Compensation Committee also established three-year performance-based restricted stock awards, at levels consistent with amounts made in 2014.

Base salaries are generally reviewed and set by the Personnel and Compensation Committee in October of each year. Named executives received increases in base salary beginning January 1, 2015, which amounts were approved by the Personnel and Compensation Committee in October 2014. Dr. Mehrabian received an increase of 2.7%, Mr. Pichelli, Ms. Main, Mr. Geveden, Miss Cibik and Mr. VanWees each received an increase of 2.5%. At its meeting in October 2015 to review salaries to take effect in 2016, the Personnel and Compensation Committee, based on the recommendation of Dr. Mehrabian and other factors, approved no increases to base salaries for the named executives other than for Mr. Pichelli. Mr. Pichelli was promoted to Chief Operating Officer in October 2015 and as a result his base salary was increased to $550,000 (from $500,000).

During the three-year period ended December 31, 2015, Teledyne s stock price growth was 102.4% of the growth in the Russell 2000 Index for the same period. As a result, in January 2016, participants in Teledyne s performance-based restricted stock program received 100% of the 2013 restricted stock award, which had a three-year performance period ended December 31, 2015. In October 2013, Dr. Mehrabian was issued a one-time additional restricted stock award. During the period from the grant date of this restricted stock award through December 31, 2015, Teledyne s stock price growth was 97.4% of the growth in the Russell 2000 Index for the same period. As a result, in January 2016, Dr. Mehrabian received 97.4% of the shares subject to this performance-based restricted stock award and forfeited 2.6% of the shares.

Commitment to Best Practices:

The Personnel and Compensation Committee periodically reviews its compensation policies and practices in light of best practices and makes appropriate adjustments when necessary. For example, in 2010, all of our currently employed named executives agreed to amend their change in control severance agreements to eliminate automatic single trigger vesting of stock options, excise tax gross-ups for excess parachute payments and to change the formula used to calculate severance payments.

Teledyne seeks to develop pay programs that are reflective of good corporate governance. Among other things:

- we do not guarantee bonuses, or equity awards, outside of certain new hire situations;
- we do not exercise discretionary upward adjustment to incentive awards for named executives;

base salaries and other components of compensation are informed by external market conditions including peer group data approved by the Personnel and Compensation Committee, which consists entirely of independent directors;

performance incentive awards are capped and there will be no payout if minimum performance goals are not achieved;

executive perquisites that are generally not available to other employees are minimal and in the case of our Chief Executive Officer limited to a car allowance;

we have never re-priced stock options;

our insider trading policy prohibits the pledging or hedging of company stock by directors and executive officers;

Compensation Discussion and Analysis (continued)

- we implemented stock ownership guidelines for key executive officers and directors in 2008 (which levels were increased for many participants in 2015 to be effective in 2016); and

- in February 2014 we adopted a formal policy related to the clawback of incentive compensation in the event of a material financial misstatement or in the event of fraud or criminal misconduct.

Personnel and Compensation Committee

The Personnel and Compensation Committee reviews and administers the compensation for the Chief Executive Officer and other members of senior management, including the named executives listed on the Summary Compensation Table beginning on page 45 of this Proxy Statement. In the case of the Chief Executive Officer, the compensation determination made by the Personnel and Compensation Committee is reviewed by the entire Board. The Personnel and Compensation Committee is composed exclusively of non-employee, independent directors. The Personnel and Compensation Committee retained the compensation consultants Exequity LLP to assist the Personnel and Compensation Committee in fulfilling its responsibilities in 2015. The services that Exequity LLP performed for Teledyne were related to executive and director compensation and were primarily in support of decision-making by the Personnel and Compensation Committee and, in the case of director compensation, the Nominating and Governance Committee. No other services were provided by Exequity LLP for the Company. In January 2015 and again in January 2016, the Personnel and Compensation Committee conducted a conflict of interest assessment of Exequity LLP, and no conflicts of interest were identified resulting from retaining Exequity LLP. In reaching these conclusions the Personnel and Compensation Committee considered factors set forth in applicable rules promulgated by the SEC.

The Personnel and Compensation Committee has a written charter that delineates its responsibilities, a full copy of which is posted on our website at www.teledyne.com under Corporate Information Governance . Among other duties, the charter states that the Personnel and Compensation Committee shall review and approve the corporate goals and objectives relevant to the Chief Executive Officer and other executive officer compensation, evaluate Chief Executive Officer and other executive officer performance in light of those goals and objectives, and determine and approve all compensation of the chief executive officer and other executive officers based on this evaluation. In determining the long-term incentive component of Chief Executive Officer compensation, the Personnel and Compensation Committee considers corporate performance and shareholder return relative to the Russell 2000 Index, the value of similar incentive awards to chief executive officers at comparable companies and the awards given to the Chief Executive Officer in past years. The charter also states that the Personnel and Compensation Committee will review and approve any employment agreements and severance arrangements, any change-in-control agreements and change-in-control provisions affecting any elements of compensation and benefits, and any special or supplemental compensation and benefits for the Chief Executive Officer and executive officers, including supplemental retirement benefits and the perquisites provided to them during and after employment.

Our Chief Executive Officer works with the Personnel and Compensation Committee Chair, our Senior Vice President, General Counsel and Secretary and the Vice President of Human Resources in establishing the agenda for the Personnel and Compensation Committee and makes compensation recommendations for the named executives (other than himself).

Peer Group Comparisons

Our peer group that we use for comparative purposes is intended to be representative of companies of similar size to us in the industries in which we compete, specifically instrumentation, digital imaging, aerospace and defense electronics and systems engineering. Such peer group is not used for the purposes of the performance graph included in the Executive Summary and 2015 Overview section above and in our Annual Report. In order to provide benchmark data for those jobs not matched to positions in the peer group, data from other published survey sources was used as additional reference, including the Aon Hewitt Total Compensation Survey.

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Compensation Discussion and Analysis (continued)

Our peer group is currently comprised of the following companies:

Actuant Corporation	IDEX Corporation
Ametek Inc.	ITT Corporation
Bruker Corporation	MOOG, Inc.
CACI International, Inc.	Orbital ATK, Inc.
Crane Co.	PerkinElmer, Inc.
Curtiss-Wright Corporation	Teradyne Inc.
Esterline Technologies Corporation	Woodward, Inc.
Flir Systems, Inc.	Xylem, Inc.

The Personnel and Compensation Committee reviews the peer group on an annual basis. In October 2015, the Personnel and Compensation Committee added Orbital ATK, Inc. to our peer group and two companies, Alliant Techsystems, Inc. and Exelis, Inc., were removed as a result of these companies being acquired and no longer publicly traded. The Personnel and Compensation Committee believes that Orbital ATK, Inc., as the successor company to Alliant Techsystems, Inc., is a natural replacement, manages the industry mix by keeping an aerospace/defense company in the peer group, and is properly sized in terms of market capitalization and revenue.

Our peer group contains companies having median annual revenues and market capitalizations of $2.2 billion and $3.7 billion, respectively. In 2015, Teledyne s annual revenues were approximately $2.3 billion and its market capitalization as of end of 2015 was approximately $3.1 billion. The Personnel and Compensation Committee also reviews data collected from a broader industry group consisting of 105 companies in order to understand what an executive with comparable responsibility to a Teledyne executive would earn in the broader industry. The companies in the general industry group have annual revenues of between $1.0 billion and $5.0 billion (with a median of $2.6 billion) and the general industry group excludes financial organizations.

Determining the Amount and Mix of Compensation

Our compensation program is designed to balance our need to provide our executives with incentives to achieve our short-term and long-term performance goals with the need to pay competitive base salaries. In October of each year the Personnel and Compensation Committee, with assistance from Exequity LLP, reviews and compares each named executive s pay to various market data points for that named executive s position. For purposes of this review, the Personnel and Compensation Committee considers an executive s total annual compensation to be the sum of current year base salary, actual cash bonus paid in the current fiscal year, target bonus levels, the aggregate fair value of stock options granted during the fiscal year, the face value of performance-based restricted stock granted during the fiscal year and the target value of PSP awards, annualized over three years.

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Compensation Discussion and Analysis (continued)

The Personnel and Compensation Committee is guided by market benchmark information in setting compensation levels and determining the mix of cash and non-cash compensation. It typically aims to set fixed pay at the 50th percentile and performance-based compensation at between the 50th percentile and 75th percentile, in recognition that we compete with much larger companies for executive-level talent and to further incentivize executives to achieve long-term performance goals. The Personnel and Compensation Committee will consider the amount of prior salary increases, stock option grants and performance-based restricted stock grants as a factor in determining compensation for the current period. The table below shows the targeted components of pay and total compensation in terms of percentage deviation from the peer group and general industry median for each of our named executives as presented to the Personnel and Compensation Committee in October 2015. Mr. Geveden resigned in October of 2015 and his compensation was not reviewed by the Committee.

Robert Mehrabian:

	Peer Group Median	General Industry Medi
Base salary	+17%	-1%
Target bonus	+38%	+14%
Target long-term compensation	-52%	-59%
Target total compensation	**-26%**	**-36%**

Susan L. Main:

	Peer Group Median	General Industry Medi
Base salary	-9%	-11%
Target bonus	-14%	-12%
Target long-term compensation	-65%	-58%
Target total compensation	**-42%**	**-36%**

Aldo Pichelli:

	Peer Group Median*	General Industry Media
Base salary		-17%
Target bonus	+2%	-23%
Target long-term compensation	-53%	-60%
Target total compensation	**-30%**	**-42%**

* Using 2nd Highest Paid for peer group and Chief Operating Officer for general industry as benchmark. Mr. Pichelli was promoted to Chief Operating Officer of Teledyne in October 2015.

Melanie S. Cibik:

	Peer Group Median	General Industry Medi
Base salary	-3%	-1%
Target bonus	-9%	-6%
Target long-term compensation	-57%	-44%
Target total compensation	**-29%**	**-23%**

Jason VanWees:

	Peer Group Median	General Industry Medi
Base salary		+14%
Target bonus	-1%	+26%
Target long-term compensation	-58%	-43%
Target total compensation	**-32%**	**-5%**

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Compensation Discussion and Analysis (continued)

As noted in the Executive Summary above, the significant deviation from the benchmark medians with respect to target long-term compensation and target total compensation was principally the result of the decision to not award stock options in 2015.

The following allocation of compensation between base salary, bonus and estimated long-term compensation for our Chairman, President and Chief Executive Officer and all other named executives as a group (in each case without typical option grants), excluding Mr. Geveden, who resigned in October 2015:

	Robert Mehrabian	Other Named Executi
Base salary	17%	37%
Estimated target bonus	25%	32%
Estimated long-term compenght;">		

Conversion of convertible preferred stock		3,432,908
Common stock options outstanding	5,394,880	3,567,858
Common stock options available for grant	1,931,398	1,771,212
Warrants to purchase common stock	7,116	213,290
Warrants to purchase convertible preferred stock		622,660
Total	7,333,394	9,607,928

9. Stock Option Plans

In October 2002 the Company established its 2002 Employee, Director and Consultant Stock Plan (the 2002 Plan) which provides for the granting of stock options to employees and consultants of the Company and issuance of restricted shares of common stock. Options granted under the 2002 Plan could be either incentive stock options (ISOs) or nonqualified stock options (NSOs). ISOs could be granted only to Company employees. NSOs could be granted to Company employees and consultants.

In December 2007 the Company established its 2007 Stock Plan. No further grants will be made under the 2002 Plan. The 2007 Stock Plan provides both for the direct award or sale of shares and for the grant of options to purchase shares. Options granted under the 2007 Stock Plan could either be ISOs or NSOs. ISOs could be granted only to Company employees. NSOs could be granted to Company employees and consultants.

Options granted under the 2007 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% shareholder 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 five years and vest at a rate of 20% upon the first anniversary of the issuance date and 1/60th per month thereafter.

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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 will be made under the 2007 Plan. Under the 2014 Plan 1,993,394 shares of the Company s common stock were made available for issuance, plus an additional number of shares that will be added to the 2014 Plan as of the effective time equal to the sum of (i) all shares that, as of the effective time, were reserved for issuance pursuant to the 2007 Plan, plus (ii) all shares that are 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 outstanding on the last day of the preceding fiscal year, or a lesser number of shares as determined by our board of directors.

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% shareholder 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.

Under the terms of the 2002 Plan and 2007 Stock Plan, all options are fully exercisable on the grant date, subject to the Company s repurchase right, which under the 2002 Plan is at the original exercise price and under the 2007 Stock Plan is at the lower of original exercise price or fair value. The repurchase rights lapse over the options vesting period of generally five years.

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. Under the ESPP, an aggregate of 262,762 shares of the Company s common stock are reserved for future grant or issuance.

Activity under the Company s stock option plans is set forth below:

		Outstanding Options			
	Shares Available for Grant	**Number of Shares**	**Weighted Average Exercise Price**		**Aggregate Intrinsic Value (thousands)**
Balances, December 31, 2013	1,771,212	3,567,858	$	1.45	$ 26,932
Additional shares reserved	2,161,944				
Options granted	(2,222,550)	2,222,550		10.77	
Options exercised		(171,424)		1.73	
Options cancelled	220,792	(224,104)		2.77	
Balances, September 30, 2014	1,931,398	5,394,880	$	5.22	$ 72,289

The aggregate intrinsic value of options exercised was $2.2 million and $25,000 for the nine months ended September 30, 2014 and 2013, respectively.

Stock-Based Compensation

During the three and nine months ended September 30, 2014, the Company granted stock options to employees to purchase 273,000 and 2,023,000 shares of common stock, respectively, with a weighted-average grant date fair value of $13.48 and $10.60 per share, respectively. During the three and nine months ended September 30, 2013, the Company granted stock options to employees to purchase zero and 73,000 shares of common stock, respectively, with a weighted-average grant date fair value for the nine months ended September 30, 2013, of $2.72 per share. As of September 30, 2014, there was total unrecognized compensation cost of $19.5 million. This cost is expected to be recognized over a period of 4.03 years. The total fair value of employee stock options vested for the three and nine months ended September 30, 2014 was $0.2 million and $0.3 million, respectively. The total fair value of employee stock options vested for the three and nine months ended September 30, 2013 was $74,000 and $0.2 million, respectively.

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Stock-based compensation expense related to employee options for the three and nine months ended September 30, 2014 was $1.2 million and $2.8 million, respectively. Stock-based compensation expense related to employee options for the three and nine months ended September 30, 2013 was $61,000 and $0.2 million, respectively.

The Company estimated the fair value of stock options using the Black-Scholes option pricing model. The fair value of employee stock options is being amortized on a straight-line basis over the requisite service period of the awards.

The fair value of employee stock options was estimated using the following assumptions:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014	**2013**	**2014**	**2013**
Expected volatility	90% - 91%	89%	90% - 96%	89%
Risk-free interest rate	2.00% - 2.18%	1.45%	2.00% - 2.20%	1.45%
Dividend yield	0%	0%	0%	0%
Contractual life (in years)	6.75	7.25	6.75 - 7.00	7.25

Determining Fair Value of Stock Options

The fair value of each grant of stock options was determined by the Company using the methods and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment to determine.

Weighted-Average Expected Term: The expected term of options granted is determined using the average period the stock options are expected to remain outstanding and is based on the options vesting term, contractual terms and historical exercise and vesting information used to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior.

Volatility: The expected stock price volatility assumption was determined by examining the historical volatilities of a group of industry peers, as the Company had limited trading history for the Company s common stock due to the recent IPO. The Company will continue to analyze the historical stock price volatility and expected term assumptions as more historical data for the Company s common stock becomes available.

Risk-Free Interest Rate: The risk-free rate is based on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

Dividend Yield: The expected dividend assumption was based on the Company s history and expectation of dividend payouts.

Forfeitures: Forfeitures were estimated based on historical experience.

Fair Value of Common Stock: The fair value of the shares of common stock underlying the stock options has historically been the responsibility of and determined by the Company s board of directors. Subsequent to the IPO in April 2014, the fair value of common stock is determined based on the closing price of the NASDAQ Global Market exchange.

Non-employee Stock-Based Compensation

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. During the three and nine months ended September 30, 2013, the Company granted options to purchase zero and 15,000 shares of common stock to consultants. 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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The Company has estimated fair value of common stock options granted to non-employees using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Expected volatility	85% - 96%	88% - 89%	72% - 98%	88%-92%
Risk-free interest rate	1.66% - 2.41%	1.70% - 2.72%	0.81% - 2.75%	1.02%-1.94%
Dividend yield	0%	0%	0%	0%
Contractual life (in years)	5.50 - 10.00	5.50 - 9.75	3.25 - 10.00	5.75- 10.00

Compensation expense related to non-employee options for the three and nine months ended September 30, 2014 was $0.8 million and $2.1 million, respectively. Compensation expense related to non-employee options for the three and nine months ended September 30, 2013 was $72,000 and $0.2 million, respectively.

Total stock-based compensation expense was allocated as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Research and development	$ 642	$ 61	$ 1,737	$ 165
General and administrative	1,395	72	3,170	221
	$ 2,037	$ 133	$ 4,907	$ 386

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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 per share is as follows (in thousands, except per share data):

Historical net income (loss) per share	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Numerator:				
Net income (loss)	$ (9,557)	$ (3,439)	$ 492	$ 19,977
Noncumulative dividend on preferred stock			(432)	(1,077)
Undistributed earnings allocated to preferred stock holders			(7)	(6,270)
Basic net income (loss) attributable to common stockholders	(9,557)	(3,439)	53	12,630
Adjustment to net income for dilutive securities			1	664
Diluted net income (loss) attributable to common stockholders	$ (9,557)	$ (3,439)	$ 54	$ 13,294
Denominator:				
Basic common shares outstanding:				
Basic common shares outstanding: weighted average common shares outstanding	16,801	9,514	14,009	9,510
Less: weighted average unvested common shares subject to repurchase	(14)	(4)	(11)	(4)
Weighted average number of common shares used in calculating net income (loss) per share basic	16,787	9,510	13,998	9,506
Dilutive securities:				
Common stock options			2,606	1,664
Warrants to purchase common stock			165	24
Warrants to purchase preferred stock				
Weighted average number of common shares used in calculating net income (loss) per share diluted	16,787	9,510	16,769	11,194
Net income (loss) per share to attributable to common stockholders				
Basic	$ (0.57)	$ (0.36)	$ 0.00	$ 1.33
Diluted	$ (0.57)	$ (0.36)	$ 0.00	$ 1.19

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, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Convertible preferred stock				4,719
Options to purchase common stock			198	
Warrants to purchase convertible preferred stock				213
Warrants to purchase common stock				623
Total			198	5,555

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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 risks 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 proven drugs to create novel therapeutics for use alone and in fixed-dose combination products. We are developing our lead wholly owned product candidate, ADS-5102, for a complication of Parkinson s disease known as levodopa induced dyskinesia, or LID, and are evaluating other potential CNS indications for which ADS-5102 may have applicability, including hyperkinetic and hypokinetic movement disorders. We successfully completed a Phase 2/3 clinical study in LID in 2013 and have initiated two Phase 3 registration trials and a separate open-label safety study in support of our LID indication in 2014.

The first of our two Phase 3 registration trials in support of our LID indication was initiated in June 2014. The study is planned to enroll approximately 130 subjects in a 26-week multi-center, randomized, double-blind, placebo-controlled trial and will assess the efficacy of a once daily 340 mg dose of ADS-5102 administered at bedtime for the treatment of LID in individuals with Parkinson s disease. The primary endpoint of this study is a reduction in LID as assessed by changes in the Unified Dyskinesia Rating Scale (UDysRS) along with supporting data from secondary endpoints. The second of our two Phase 3 registration trials in support of our LID indication was initiated in October 2014. The study is planned to enroll approximately 70 subjects in a 13-week multi-center, randomized, double-blind, placebo-controlled trial and will assess the efficacy of a once daily 340 mg dose of ADS-5102 administered at bedtime for the treatment of LID in individuals with Parkinson s disease. The primary endpoint of this study is a reduction in LID as assessed by changes in the Unified Dyskinesia Rating Scale (UDysRS) along with supporting data from secondary endpoints.

Our late-stage therapeutics portfolio also includes an NDA-submitted product candidate, MDX-8704, being co-developed with Forest Laboratories, Inc., a subsidiary of Actavis plc, referred to herein as Forest and Actavis, respectively, and an approved product, Namenda XR, which Forest developed and is marketing in the United States under a license from us.

Prior to November 2012, we were developing ADS-8704, a fixed-dose combination of controlled-release memantine and donepezil. Pursuant to our license agreement with Forest, we exclusively licensed to Forest certain U.S. intellectual property rights relating to controlled-release memantine and therapies including memantine. Forest has continued the ADS-8704 program under the name MDX-8704. Under our license agreement with Forest, we received a $65.0 million upfront payment in November 2012, two $20.0 million milestone payments in the fourth quarter of 2013 and a $25.0 million milestone payment in May 2014. We are eligible to receive up to an additional $30.0 million in payments based upon the first U.S. Food and Drug Administration, or FDA, approval of MDX-8704.

Financial operations overview

Summary

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, 2014, we had an accumulated deficit of $20.1 million. Although we reported net income for the nine months ended September 30, 2014 and in each of the years ending December 31, 2013 and 2012, this was primarily due to the recognition of revenue pursuant to our license agreement with Forest. 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. We cannot assure you that we will receive additional collaboration revenue in the future.

In 2010, we suspended further activities on our influenza product candidate, ADS-8902, due to the expected length of the clinical trial and a change in our strategic focus. At the same time, we entered into an agreement with the National Institute of Allergy and Infectious Diseases, a division of the National Institutes of Health, or NIH, and its subcontractor under which we provided clinical trials supply, protocols, and operational support for further clinical development. We retained the rights to any clinical study data generated by the NIH with respect to clinical studies conducted by the NIH. We had supplied clinical operations support through a subcontract with the independent third-party subcontractor that was cancelled as of March 31, 2014.

We were 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, which has not yet commenced, is in non-core areas to the Company.

We expect our research and development expenses to increase as we continue to advance our product candidates through clinical development. In addition, if any of our product candidates receive regulatory approval for commercial sale in the United States, we expect to incur significant expenses associated with the establishment of a specialty sales force. 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. On April 15, 2014, we completed our IPO pursuant to which we issued 3,000,000 shares of common stock and received net proceeds of approximately $41.4 million, after underwriting discounts, commissions and offering expenses. On May 6, 2014, we issued and sold an additional 81,371 shares of common stock pursuant to the underwriters partial exercise of their option to purchase additional shares, for net proceeds of approximately $1.2 million, after deducting underwriting discounts and commissions of approximately $91,000. In connection with the completion of our IPO, all convertible preferred stock converted into common stock.

Under our agreement with Forest we received a non-refundable upfront license fee of $65.0 million in 2012, $40.0 million in development milestone fees in 2013, and $25.0 million in milestone fees related to acceptance of Forest s New Drug Application, or NDA, submission by the FDA in May 2014, and we may receive up to an additional $30.0 million in future milestone fees upon FDA approval. Forest has stated that it projects FDA approval and commercial launch of MDX-8704 in the first half of 2015. Beginning in 2018 we will be entitled to receive royalties in the low to mid-single digits from Forest for sales of Namenda XR in the United States and, five years after commercial launch, in the low double digits to the mid-teens for sales of MDX-8704 in the United States, if approved.

As of September 30, 2014, we had cash and cash equivalents of $137.5 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.

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The following table summarizes the sources of our revenue for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Forest:				
Recognition of upfront license fee and milestones	$	$	$ 25,000	$ 29,611
Reimbursement of development expenses	215	74	390	1,055
Forest total	215	74	25,390	30,666
NIH grants		46	109	159
Government contracts		41	46	160
Total revenue	$ 215	$ 161	$ 25,545	$ 30,985

We recognized collaboration revenue of zero and $25.0 million for the three and nine months ended September 30, 2014, respectively, and zero and $29.6 million for the three and nine months ended September 30, 2013, respectively, pursuant to our license agreement with Forest. We also recognized revenue from Forest of approximately $0.2 million and $0.4 million in development funding for the three and nine months ended September 30, 2014, respectively, as well as $74,000 and $1.1 million for the three and nine months ended September 30, 2013, respectively. We expect that our revenue will continue to fluctuate in future periods.

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.

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.

We anticipate our research and development expenses will increase as we continue our Phase 3 registration trials for ADS-5102, during 2014 and 2015.

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The following table summarizes our research and development expenses incurred during the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Product candidate				
ADS-5102	$ 4,695	$ 393	$ 9,529	$ 1,726
ADS-8704(1)	181	115	325	995
Unallocated research and development expenses(2)	536	879	3,489	2,316
Total research and development expenses	$ 5,412	$ 1,387	$ 13,343	$ 5,037

(1) ADS-8704 includes program costs that we incurred related to the fixed-dose combination drug that was licensed to Forest. Subsequent to the execution of the license agreement Forest assigned the name MDX-8704 to the program in the United States.

(2) Unallocated costs include research and development not allocated to a specific program. No employee-related expenses were allocated to ADS-5102 in 2013.

The program-specific expenses summarized in the table above include costs directly attributable to our product candidates. We allocate research and development salaries, benefits 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 expect our research and development expenses to increase in the future. 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, we have entered into collaborations with 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.

General and administrative expenses

General and administrative expenses consist primarily of personnel costs, facilities costs, and other expenses for outside professional services, including legal, intellectual property, human resources, board of directors, audit, and accounting services. Personnel costs consist of salaries, benefits, and stock-based compensation. We expect to incur additional expenses as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and those of the NASDAQ Global Market on which our securities are traded, additional insurance expenses, investor relations activities, and other administration and professional services.

Interest and other income, net

Interest and other income, net consists primarily of interest received on our cash and cash equivalents and 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, 2014, as compared to those disclosed in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - Critical accounting policies and significant judgments and estimates in our prospectus dated April 9, 2014, filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, as amended, or Securities Act.

Results of operations

Comparison of the three and nine months ended September 30, 2014 and 2013

The following table summarizes our results of operations for the three and nine months ended September 30, 2014 and 2013 (in thousands, except percentages):

	Three Months Ended September 30,		Increase/	Increase/	Nine Months Ended September 30,		Increase/	Increase/
	2014	2013	(Decrease)	(Decrease)	2014	2013	(Decrease)	(Decrease)
Revenue	$ 215	$ 161	$ 54	34%	$ 25,545	$ 30,985	$ (5,440)	(18)%
Research and development	5,412	1,387	4,025	290%	13,343	5,037	8,306	165%
General and administrative	4,353	1,571	2,782	177%	10,724	4,054	6,670	165%
Other income (expense), net	(1)	(426)	(425)	(100)%	(801)	(1,414)	(613)	(43)%

Revenue

Revenue increased by $54,000, or 34%, to $0.2 million from $0.2 million for the three months ended September 30, 2014 and 2013, respectively. The slight increase in revenue for the three months ended September 30, 2014 was due to increased reimbursement of development expenses from Forest of $0.1 million, or 191%, to $0.2 million from $74,000 for the three months ended September 30, 2014 and 2013, respectively. This was partially offset by decreased revenue from NIH grants and government contracts of $87,000, or 100%, to zero from $87,000 for the three months ended September 30, 2014 and 2013, respectively.

Revenue decreased by $5.5 million, or 18%, to $25.5 million from $31.0 million for the nine months ended September 30, 2014 and 2013, respectively. The decrease in revenue for the nine months ended September 30, 2014 was primarily due to the timing of milestones being achieved under the license agreement with Forest. We recognized license and development milestone revenue of $25.0 million in the nine months ended September 30, 2014; whereas, we recognized license and development milestone revenue of $29.6 million in the nine months ended September 30, 2013. Reimbursement of development expenses decreased by $0.7 million, or 63%, to $0.4 million from $1.1 million for the nine months ended September 30, 2014 and 2013, respectively. NIH grant and government contract revenues decreased by $0.2 million, or 51%, to $0.1 million from $0.3 million for the nine months ended September 30, 2014 and 2013, respectively.

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Research and development expenses

Research and development expenses increased by $4.0 million, or 290%, to $5.4 million from $1.4 million for the three months ended September 30, 2014 and 2013, respectively. The increase in research and development expenses was due to a significant increase in program costs related to ADS-5102 of $4.3 million, or 1,095%, to $4.7 million from $0.4 million. Increased expenses related primarily to the continuation of our Phase 3 efficacy and safety studies. In addition, there was an increase in spending for ADS-8704 of $66,000, or 57%, to $0.2 million from $0.1 million for the three months ended September 30, 2014 and 2013, respectively, which we incurred as part of our licensing the U.S. rights to the program to Forest. These increases were partially offset by decreased expenses of $0.3 million that were not allocated to a specific program. Research and development expenses also included stock-based compensation expense of $0.6 million compared to $61,000 for the three months ended September 30, 2014 and 2013, respectively.

Research and development expenses increased by $8.3 million, or 165%, to $13.3 million from $5.0 million for the nine months ended September 30, 2014 and 2013, respectively. Increased research and development expenses related primarily to manufacturing, commencement, and continued enrollment of our Phase 3 efficacy and safety studies in support of ADS-5102, which increased $7.8 million, or 452%, to $9.5 million from $1.7 million for the nine months ended September 30, 2014 and 2013, respectively. There were also increased expenses that were not allocated to a specific program of $3.5 million in the current period. In addition there was a decrease of $0.7 million, or 67%, to $0.3 million from $1.0 million for the three months ended September 30, 2014 and 2013, respectively, for ADS-8704, which we incurred as part of our licensing the U.S. rights to the program to Forest. Research and development expenses also included stock-based compensation expense of $1.7 million compared to $0.2 million for the nine months ended September 30, 2014 and 2013, respectively.

General and administrative expenses

General and administrative expenses increased $2.8 million, or 177%, to $4.4 million from $1.6 million for the three months ended September 30, 2014 and 2013, respectively. The increase in general and administrative expenses was primarily due to the increase in headcount-related expenses, as well as professional services related to our IPO and being a public company totaling $1.3 million and $1.2 million, respectively. General and administrative expenses also included stock-based compensation expense of $1.4 million compared to $72,000 for the three months ended September 30, 2014 and 2013, respectively.

General and administrative expenses increased $6.7 million, or 165%, to $10.7 million for the nine months ended September 30, 2014 from $4.0 million for the nine months ended September 30, 2013. The increase in general and administrative expenses was primarily due to the increase in headcount related expenses and professional services relating to our IPO and being a public company totaling $3.2 million and $2.7 million, respectively. General and administrative expenses also included stock-based compensation expense of $3.2 million compared to $0.2 million for the nine months ended September 30, 2014 and 2013, respectively.

Other income (expense), net

Other income (expense), net decreased by $0.4 million, or 100%, to $1,000 from $0.4 million for the three months ended September 30, 2014 and 2013, respectively. Other income (expense), net decreased by $0.6 million, or 43%, to $0.8 million from $1.4 million for the nine months ended September 30, 2014 and 2013, respectively. These decreases were related to other income recorded as a result of the repayment of a note receivable of $0.2 million in June 2014 that had been fully reserved and a decrease of $0.1 million in other general expenses. In addition, there were expenses related to the dissolution of our India subsidiary of $0.2 million in 2013 and an insignificant amount in 2014.

Liquidity, capital resources and plan of operation

We have funded our operations primarily through payments received pursuant to our license agreement with Forest, sales of convertible preferred stock and warrants, sales of our common stock in our IPO, bank debt, and the issuance of convertible debt. We have not generated any revenue from the sale of any products. We have incurred losses and generated negative cash flows from operations since inception through 2011 and for the three month periods ended March 31 and September 30, 2014. In 2012, 2013, and for the nine months ended September 30, 2014, we recognized a profit and positive cash flow as a result of payments received pursuant to our license agreement with Forest. Our principal sources of liquidity were our cash and cash equivalents, which totaled $137.5 million and $85.6 million at September 30, 2014 and December 31, 2013, respectively.

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As of September 30, 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. On April 15, 2014, we completed our IPO of shares of our common stock pursuant to which we issued 3,000,000 shares of common stock and received net proceeds of approximately $41.5 million, after underwriting discounts, commissions, and offering expenses. On May 6, 2014, the Company issued and sold 81,371 shares of common stock pursuant to the underwriters partial exercise of their option to purchase additional shares, and received net proceeds of approximately $1.2 million, after deducting underwriting discounts and commissions of approximately $91,000. In connection with the completion of our IPO, all convertible preferred stock converted into common stock.

We believe our existing cash and cash equivalents will be sufficient to fund our projected operating requirements for at least the next 12 months, including operations related to the continued development of ADS-5102 for LID. However, it is possible that we will not achieve the progress that we expect, because the actual costs and timing of drug development, particularly clinical studies, are difficult to predict, subject to substantial risks and delays, and often vary depending on the particular indication and development strategy.

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

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
Net cash (used in) provided by:				
Operating activities	$	7,240	$	(9,772)
Investing activities		(194)		(162)
Financing activities		44,868		(3,975)
Net increase (decrease) in cash and cash equivalents	$	51,914	$	(13,909)

Net cash provided by operating activities was $7.2 million for the nine months ended September 30, 2014. This increase in cash and cash equivalents was the result of receiving a $25.0 million milestone payment from Forest in May 2014. Net cash used in operating activities was $9.8 million for the nine months ended September 30, 2013 and was primarily attributable to the development of ADS-8704 and ADS-5102.

Net cash used in investing activities amounted to $0.2 million and $0.2 million for the nine months ended September 30, 2014 and 2013, respectively, which consisted mainly of property and equipment purchases.

Net cash provided by financing activities amounted to $44.9 million for the nine months ended September 30, 2014, which consisted primarily of $43.2 million of net proceeds from the IPO after payment of offering costs. Net cash used in financing activities for the nine months ended September 30, 2013 was $4.0 million, all of which related to the repayment of convertible notes.

Off-balance sheet arrangements

Since our inception, we have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities, or variable interest entities.

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Contractual obligations

Our future contractual obligations at September 30, 2014 were as follows (in thousands):

	Payments due by period				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Contractual obligations:					
Operating lease obligations	$ 486	$ 1,837	$ 983	$	$ 3,306
Total contractual obligations	$ 486	$ 1,837	$ 983	$	$ 3,306

Recent Accounting Pronouncements

See Note 2 of our Notes to Condensed Consolidated Financial Statements included in this report for recent accounting pronouncements, including the expected dates of adoption and estimated effects on our financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The primary objective of our investment activities is to preserve our capital to fund our operations. We also seek to maximize income from our investments without assuming significant risk. To achieve our objectives, we maintain a portfolio of cash, cash equivalents, and marketable securities in a variety of securities of high credit quality. As of September 30, 2014, we had cash and cash equivalents of $137.5 million consisting of cash and liquid investments deposited in highly rated financial institutions in the United States. A portion of our investments may be subject to interest rate risk and could fall in value if market interest rates increase. However, because our investments are primarily short term in duration and mature prior to our need for operating cash, we believe that our exposure to interest rate risk is not significant and a 1% movement in market interest rates would not have a significant impact on the total value of our portfolio. We actively monitor changes in interest rates.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the rules and regulations thereunder, is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2014. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of September 30, 2014, our disclosure controls and procedures were effective at the reasonable assurance level.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Several companies submitted Abbreviated New Drug applications, or ANDAs, to the FDA requesting permission to manufacture and market generic versions of Namenda XR, on which we are 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 us and licensed by us 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. In January, February, and April 2014, we, Forest, Forest Laboratories Holdings Ltd., 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. We are 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) we, Forest, Forest Laboratories Holdings Ltd., and Merz be awarded monetary relief, in addition to any attorneys fees, costs, and expenses relating to the actions. Because these 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 ANDAs will begin to expire in June 2016.

In early November 2014, we, Forest, and Merz entered into a Settlement Agreement with Wockhardt Limited, one of the parties sued by us and Forest for infringement of our patents. Pursuant to this agreement, Worckhardt received a non-exclusive license to make and sell its generic versions of Namenda XR starting March 23, 2026, which is two months prior to the expiration of the last to expire of our relevant patents.

Item 1A. Risk Factors

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, results of operations and future growth prospects. Our business could be harmed by any of these risks. The risks and uncertainties described below are not the only ones we face. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes. The risks relating to our business set forth in Item 1A of our Quarterly Reports on Form 10-Q for the quarter ended June 30, 2014, filed with the Securities and Exchange Commission on August 7, 2014 are set forth below and are unchanged substantively as of September 30, 2014, except for those risks designated by an asterisk (*).

Risks related to our financial condition and need for additional capital

Although we reported net income for 2012, 2013, and the three months ended March 31, 2014, we incurred significant losses in prior years and in two of the three most recent fiscal quarters ended September 30, 2014, and expect to incur substantial losses in the future.

We are a clinical-stage specialty pharmaceutical company and do not currently directly market any products. We currently exclusively license U.S. patent rights for one approved product, Namenda XR, to a wholly owned subsidiary of Forest, and Forest markets Namenda XR in the United States, but we do not currently receive royalties on the sales of that product. We continue to incur significant research and development and general and administrative expenses related to our product candidates and our operations. Although we reported net income for 2012 2013, and the three months ended March 31, 2014, this was almost entirely due to the timing of milestone payments we received pursuant to our license agreement with Forest. We incurred significant operating losses in 2011 and prior years and in the two of the three most recent fiscal quarters ended September 30, 2014. We expect to incur substantial and increasing losses for the foreseeable future. As of September 30, 2014, we had an accumulated deficit of $20.1 million.

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Prior to our IPO, we had financed our operations primarily through our collaboration with Forest, private placements of our convertible preferred stock, and, to a lesser extent, government grants, venture debt, and benefits from tax credits made available under a federal stimulus program supporting drug development. We have devoted substantially all of our efforts to research and development, including clinical studies, but have not completed development of any product candidates. We anticipate that our expenses will increase substantially as we:

- initiate and conduct Phase 3 registration trials of our lead wholly owned product candidate, ADS-5102 in levodopa induced dyskinesia, or LID;
- initiate and conduct clinical trials of ADS-5102 for treatment of other indications in addition to LID and develop additional product candidates;
- seek regulatory approvals for our product candidates that successfully complete clinical studies;
- establish a specialty CNS sales force and improve our distribution and marketing capabilities to commercialize products for which we may obtain regulatory approval;
- enhance operational, financial, and information management systems and hire more personnel, including personnel to support development of our product candidates and, if a product candidate is approved, our commercial operations;
- continue the research and development of our current product candidates; and
- seek to discover or in-license additional product candidates.

To be profitable in the future, we or our current and future potential collaboration partners must succeed in developing and commercializing products with significant market potential. This will require us or our partners to be successful in a range of activities, including advancing product candidates into clinical trials, completing clinical studies and obtaining regulatory approvals related to those product candidates, and manufacturing, marketing and selling those products for which regulatory approvals are obtained. We or our partners may not succeed in these activities, and, as a result, we may never generate revenue that is sufficient to be profitable in the future. In the near term, our only anticipated source of significant revenue is from a final milestone payment under our license agreement with Forest, which will only be received if and when the FDA approves MDX-8704. We will not be entitled to receive any royalty payments with respect to sales of Namenda XR until June 2018, and with respect to sales of our second partnered product candidate, MDX-8704, until five years after its commercial launch in the United States, assuming it is approved and launched.

Even if we attain profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to achieve sustained profitability would cause cash generated from operations to be inadequate to fund future operations and could depress the value of our stock and impair our ability to raise capital, expand our business, diversify our product candidates, market our product candidates, if approved, or continue our operations.

Our operating results may fluctuate significantly, which makes our future operating results difficult to predict and could cause our operating results to fall below expectations or our guidance.*

Our quarterly and annual operating results may fluctuate significantly in the future, which makes it difficult for us to predict our future operating results. Our sole anticipated source of significant revenue in the near term is from a final milestone payment under our license agreement with Forest. Accordingly, our revenue will depend on the achievement of that milestone as well as any potential future collaboration and license agreements and sales of our product candidates, if approved. Upfront and milestone payments may vary significantly from period to period and any such variance could cause a significant fluctuation in our operating results from one period to the next. Furthermore, our operating results may fluctuate due to a variety of other factors, many of which are outside of our control and may be difficult to predict, including:

- the level of demand for our products, should any of our product candidates receive regulatory approval, which may vary significantly as they are launched and compete for position in the marketplace;

- pricing and reimbursement policies with respect to our products candidates, if approved, and the competitive response from existing and potential future therapeutic approaches that compete with our product candidates;

- the cost of manufacturing our product candidates, which may vary due to a number of factors, including the terms of our agreements with contract manufacturing organizations, or CMOs;

- the timing, cost, level of investment, and success or failure of research and development activities relating to our pre-clinical and clinical-stage product candidates, which may change from time to time;

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- expenditures that we may incur to acquire and develop additional product candidates and technologies;

- the timing and success or failure of clinical studies for competing product candidates, or any other change in the competitive landscape of our industry, including consolidation among our competitors or partners;

- future accounting pronouncements or changes in our accounting policies; and

- changing or volatile U.S., European, and global economic environments.

The cumulative effects of these factors could result in large fluctuations and unpredictability in our quarterly and annual operating results. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Investors should not rely on our past results as an indication of our future performance. This variability and unpredictability could also result in our failing to meet the expectations of industry or financial analysts or investors for any period. If our revenue or operating results fall below the expectations of analysts or investors or below any forecasts we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our common stock could decline substantially. Such a stock price decline could occur even when we have met any previously publicly stated revenue and/or earnings guidance that we may provide.

We may need additional funds and, if we cannot raise additional capital when needed, we may have to curtail or cease operations.*

We are seeking to advance multiple product candidates through the research and clinical development process. The completion of the development and the potential commercialization of our product candidates, should they receive approval, will require substantial funds. As of September 30, 2014, we had approximately $137.5 million in cash and cash equivalents. We believe that our available cash and cash equivalents will be sufficient to fund our anticipated level of operations for at least the next 12 months, but there can be no assurance that this will be the case. Our future financing requirements will depend on many factors, some of which are beyond our control, including:

- the rate of progress and cost of our clinical studies;

- the timing of, and costs involved in, seeking and obtaining approvals from the U.S. Food and Drug Administration, or FDA, and potentially other regulatory authorities;

- the costs of commercialization activities related to our product candidates should any be approved, including initiating and expanding our sales, marketing, and distribution activities;

- the degree and rate of market acceptance of any approved products launched by us, Forest, or any future partners;

- the coverage of our products, if approved, by third-party payors and the formulary tier in which health plans and other payors place our products and the rate at which the products are reimbursed;

- our ability to enter into additional collaboration, licensing, commercialization, or other arrangements and the terms and timing of such arrangements; and

- the emergence of competing therapeutic approaches or other adverse market developments.

We do not have any committed external source of funds or other support for our development efforts other than our license agreement with Forest, which may be terminated by Forest upon delivery of notice. Until we can generate sufficient revenue from our own products and from royalties paid to us by Forest pursuant to our license agreement to finance our operations, which we may never do, we expect to finance future cash needs through a combination of public or private equity offerings, debt financings, collaborations, strategic alliances, licensing arrangements, asset sales, and other marketing and distribution arrangements. Additional financing may not be available to us when we need it or it may not be available on favorable terms. If we raise additional capital through marketing and distribution arrangements or other collaborations, strategic alliances, or licensing arrangements with third parties, we may have to relinquish certain valuable rights to our product candidates, technologies, future revenue streams, or research programs or grant licenses on terms that may not be favorable to us. If we raise additional capital through public or private equity offerings, the ownership interest of our existing stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect our stockholders rights. If we raise additional capital through debt financing, we may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we are unable to obtain adequate financing when needed, we may have to delay, reduce the scope of, or suspend one or more of our clinical studies or research and development programs or our commercialization efforts.

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Risks related to the development and commercialization of our current and future products

Our success depends heavily on the approval and successful commercialization of ADS-5102, the U.S. approval and successful U.S. commercialization by Forest of MDX-8704, and the successful U.S. commercialization by Forest of Namenda XR. If we are unable to successfully commercialize ADS-5102 or Forest is unable to successfully commercialize MDX-8704 or Namenda XR in the U.S., or if either we or Forest experience significant delays in doing so, our business will be materially harmed.

We have invested a significant portion of our efforts and financial resources into the development of ADS-5102, an oral once-nightly controlled-release version of the FDA-approved drug amantadine, and MDX-8704, a fixed-dose combination of the FDA-approved drugs memantine and donepezil. MDX-8704 has been exclusively licensed to Forest in the United States. In addition, we have granted Forest a royalty-bearing license under certain of our patents to commercialize Namenda XR, a controlled-release version of memantine, in the United States. Our ability to generate milestone, product and royalty revenue will depend heavily on the successful development, regulatory approval and eventual commercialization of ADS-5102 and MDX-8704 and successful commercialization of Namenda XR. Under the terms of our license agreement with Forest, we will not be entitled to receive royalty payments on the sale of Namenda XR until June 2018 and royalty payments on the sale of MDX-8704 until five years after it is launched, assuming it is approved and launched. The success of these drugs will depend on numerous factors, including:

- successfully completing clinical studies for ADS-5102;
- receiving marketing approvals from the FDA and, to a lesser extent, similar regulatory authorities outside the United States for our product candidates;
- establishing commercial manufacturing arrangements with third parties;
- launching commercial sales of any of the product candidates that may be approved;
- the medical community and patients accepting any approved product;
- the placement of any approved products on payors formulary tiers and the reimbursement rates established for the approved products;
- effectively competing with other therapies;

- any approved products continuing to have an acceptable safety profile following approval; and

- obtaining, maintaining, enforcing, and defending intellectual property rights and claims.

If we or Forest do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize our product candidates, which would materially harm our business.

Forest s ability to successfully commercialize Namenda XR and, if approved, MDX 8704 will depend in part on its ability to transition patients currently being prescribed the immediate-release version of memantine, known as Namenda IR, to Namenda XR and subsequently to MDX-8704, if approved. The Attorney General of the State of New York has filed a lawsuit against Forest and Actavis challenging Forest s announced plan to discontinue sales of Namenda IR in the fall of 2014 and seeking to require Forest and Actavis to, among other things, continue selling Namenda IR until generic memantine is commercially available, expected to occur in the second half of 2015. If this litigation or other factors negatively impact Forest s ability to successfully commercialize Namenda XR or, if approved, MDX-8704, our future royalty income could be materially adversely affected.

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If clinical studies of our product candidates fail to demonstrate sufficient safety and efficacy to the satisfaction of the FDA or similar regulatory authorities outside the United States or do not otherwise produce positive results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

Before obtaining regulatory approval for the sale of our product candidates, we must conduct extensive clinical studies to demonstrate the safety and efficacy of our product candidates in humans. Clinical studies are expensive, are difficult to design and implement, can take many years to complete and are uncertain as to outcome. A failure of one or more of our clinical studies could occur at any stage of testing. The outcome of preclinical testing and early clinical studies may not be predictive of the success of later clinical studies, and interim results of a clinical study do not necessarily predict final results. For example, the successful result of our Phase 2/3 study of ADS-5102 for the treatment of LID, including the lack of difference from placebo in the incidence of sleep-related adverse events, may not be repeated in our Phase 3 registration trials.

We may experience numerous unforeseen events during, or as a result of, clinical studies that could delay or prevent our ability to receive regulatory approval or commercialize our product candidates, including that:

- clinical studies of our product candidates may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical studies or abandon product development programs;

- the number of patients required for clinical studies of our product candidates may be larger than we anticipate, enrollment in these clinical studies may be insufficient or slower than we anticipate, or patients may drop out of these clinical studies at a higher rate than we anticipate;

- the cost of clinical studies of our product candidates may be greater than we anticipate;

- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;

- we might have to suspend or terminate clinical studies of our product candidates for various reasons, including a finding that our product candidates have unanticipated serious side effects or other unexpected characteristics or that the patients are being exposed to unacceptable health risks;

- regulators may not approve our proposed clinical development plans or may require costly modifications to such plans;

- regulators or institutional review boards may not authorize us or our investigators to commence a clinical study or conduct a clinical study at a prospective study site;
- regulators or institutional review boards may require that we or our investigators suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements; and
- the supply or quality of our product candidates or other materials necessary to conduct clinical studies of our product candidates may be insufficient or inadequate.

If we are required to conduct additional clinical studies or other testing of our product candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical studies or other testing of our product candidates, if the results of these studies or tests are not positive or are only modestly positive, or if there are safety concerns, we may:

- be delayed in obtaining marketing approval for our product candidates;
- not obtain marketing approval at all;
- obtain approval for indications that are not as broad as intended;
- have the product removed from the market after obtaining marketing approval;
- be subject to additional post-marketing testing requirements; or
- be subject to restrictions on how the product is distributed, marketed, or used.

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Our product development costs will increase if we experience delays in testing or approvals. Significant clinical study delays also could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before we do, which would impair our ability to commercialize our product candidates and harm our business and results of operations.

Even if clinical studies demonstrate statistically significant efficacy and acceptable safety for a product, the FDA or similar regulatory authorities outside the United States may not approve it for marketing.*

Forest has completed the clinical trials that it and we believe are necessary to support the submission to the FDA of a New Drug Application, or NDA, for MDX-8704 for the treatment of moderate to severe dementia in Alzheimer s disease patients. Forest submitted an NDA to the FDA for MDX-8704 in February 2014. We believe those trials indicated that a single dose of MDX-8704 is bioequivalent to separate doses of Namenda XR and donepezil and that MDX-8704 exhibits the same bioavailability whether administered after fasting, after a meal or when sprinkled on apple sauce. We initiated two Phase 3 registration trials and a separate open-label safety study of ADS-5102 for LID. If these trials are successful, we intend to submit an NDA for ADS-5102 in that indication. It is possible that the FDA may not consider the results of these studies to be sufficient for approval of the product candidates in their proposed indications. If the FDA were to require Forest or us to conduct additional studies of MDX-8704 or ADS-5102 to support NDAs for approval for the product candidates in their currently contemplated indications, our business and financial results would be materially adversely affected.

Our product candidates have never been manufactured on a commercial scale, and there are risks associated with developing manufacturing and packaging processes and scaling them up to commercial scale.

Our product candidates have never been manufactured on a commercial scale, and there are risks associated with developing manufacturing and packaging processes and scaling them up to commercial scale including, among others, cost overruns, potential problems with process scale-up, process reproducibility, stability issues, lot consistency, and timely availability of raw materials. These risks can adversely affect regulatory approval of a product candidate. In addition, even if we could otherwise obtain regulatory approval for any product candidate, there is no assurance that CMOs with which we contract will be able to manufacture the approved product to specifications acceptable to the FDA or other regulatory authorities or to produce it in sufficient quantities to meet the requirements for the potential launch of the product to meet potential future demand. If our CMOs are unable to produce sufficient quantities of the approved product, our regulatory approval or commercialization efforts would be impaired, which would have an adverse effect on our business, financial condition, results of operations and growth prospects.

Our product candidates and Namenda XR are complex to manufacture, and manufacturing disruptions may occur.

Our product candidates and Namenda XR all include controlled-released versions of existing drugs, and some are combinations of existing drugs. The manufacture and packaging of controlled-release versions of existing drugs or combinations of existing drugs are substantially more complex than the manufacture and packaging of the immediate-release versions of drugs alone. Even after the manufacturing process for a controlled-release or combination product has been scaled to commercial levels and numerous commercial lots have been produced, manufacturing disruptions may occur. Such problems may prevent the production of lots that meet the specifications required for sale of the product and may be difficult and expensive to resolve. For example, in November 2013 Forest recalled three packaged lots of Namenda XR because Forest s dissolution testing revealed a failure to meet specification throughout shelf life. Namenda XR is one of the components of Forest s fixed-dose combination product candidate MDX-8704. If any such issues were to arise with respect to our product candidates or future products, if any, or if Forest s sales of Namenda XR or the regulatory approval or Forest s sales of MDX-8704 were to be negatively impacted by such issues, our business, financial results or stock price could be adversely affected.

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If generic manufacturers use litigation and regulatory means to obtain approval for generic versions of products on which our future revenue depends, our business will suffer.

Under the U.S. Food, Drug and Cosmetic Act, or FDCA, the FDA can approve an Abbreviated New Drug Application, or ANDA, for a generic version of a branded drug without the ANDA applicant undertaking the clinical testing necessary to obtain approval to market a new drug. In place of such clinical studies, an ANDA applicant usually needs only to submit data demonstrating that its product has the same active ingredient(s) and is bioequivalent to the branded product, in addition to any data necessary to establish that any difference in strength, dosage form, inactive ingredients, or delivery mechanism does not result in different safety or efficacy profiles, as compared to the reference drug.

The FDCA requires that an applicant for approval of a generic form of a branded drug certify either that its generic product does not infringe any of the patents listed by the owner of the branded drug in the *Approved Drug Products with Therapeutic Equivalence Evaluations*, also known as the Orange Book, or that those patents are not enforceable. This process is known as a paragraph IV challenge. Upon receipt of the paragraph IV notice, the owner has 45 days to bring a patent infringement suit in federal district court against the company seeking ANDA approval of a product covered by one of the owner s patents. The discovery, trial, and appeals process in such suits can take several years. If this type of suit is commenced, the FDCA provides a 30-month stay on the FDA s approval of the competitor s application. This type of litigation is often time-consuming and costly and may result in generic competition if the patents at issue are not upheld or if the generic competitor is found not to infringe the owner s patents. If the litigation is resolved in favor of the ANDA applicant or the challenged patent expires during the 30-month stay period, the stay is lifted and the FDA may thereafter approve the application based on the standards for approval of ANDAs.

For example, as of August 6, 2014, we had received notice that severalcompanies had submitted ANDAs to the FDA requesting permission to manufacture and market generic versions of Namenda XR, on which we are entitled to receive royalties from Forest beginning in June 2018. In the notices, these companies allege that the patents associated with Namenda XR, one of which is owned by Forest, one of which is exclusively licensed to Forest by Merz Pharma GmbH & Co. KGaA, and others of which are owned by us and licensed by us exclusively to Forest in the United States, are invalid, unenforceable, or will not be infringed by the companies manufacture, use or sale of generic versions of Namenda XR. In January, February, April, May, and July 2014, we, Forest, Forest Laboratories Holdings Ltd., Merz Pharma GmbH & Co. KGaA, and Merz Pharmaceuticals GmbH (together Merz) filed lawsuits for infringement of the relevant patents against several of these companies that had then submitted ANDAs. Because these lawsuits were filed within the requisite 45-day period provided in the FDCA, there are stays preventing FDA approval of the ANDAs for 30 months or until a court decision adverse to the patents. The 30-month stay for these ANDAs will expire beginning in June 2016. In early November 2014, we, Forest, and Merz entered into a Settlement Agreement with Wockhardt Limited, one of the parties sued by us and Forest for infringement of our patents. Pursuant to this agreement, Worckhardt received a non-exclusive license to make and sell its generic versions of Namenda XR starting March 23, 2026, which is two months prior to the expiration of the last to expire of our relevant patents.

For various strategic and commercial reasons, manufacturers of generic medications frequently file ANDAs shortly after FDA approval of a branded drug regardless of the perceived strength and validity of the patents associated with such product. Based on these past practices, we believe it is likely that one or more such generic manufacturers will file ANDAs with respect to MDX-8704 and ADS-5102, if they are approved by the FDA, prior to the expiration of the patents related to those compounds.

The filing of an ANDA as described above with respect to any of our products could have an adverse impact on our stock price. Moreover, if any such ANDAs were to be approved and the patents covering the relevant products were not upheld in litigation, or if a generic competitor is found not to infringe these patents, the resulting generic competition would negatively affect our business, financial condition and results of operations.

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Any product candidate that we are able to commercialize may become subject to unfavorable pricing regulations, third-party coverage or reimbursement practices or healthcare reform initiatives, thereby harming our business.*

The regulations that govern marketing approvals, pricing, coverage, and reimbursement for new therapeutic products vary widely from country to country. Some countries require approval of the sale price of a product before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain regulatory approval for a product in a particular country, but then be subject to price regulations that delay our commercial launch of the product and negatively impact the revenue we are able to generate from the sale of the product in that country. In particular, in many countries, including many major European markets, therapies that are based on existing generic drugs, such as Namenda XR (memantine) and ADS-5102 (amantadine), or combinations of existing generic drugs, such as MDX-8704, generally are not well-reimbursed. As a result, we anticipate that the commercial success of Namenda XR, ADS-5102, and MDX-8704 will be largely dependent on their success in the U.S. market.

Our ability to commercialize any products successfully in the United States will depend in part on the extent to which coverage and reimbursement for these products becomes available from third-party payors, including government health administration authorities, such as those that administer the Medicare and Medicaid programs, and private health insurers. Third-party payors decide which medications they will cover by placement on their formularies and at what reimbursement levels. A primary trend in the U.S. healthcare industry is cost containment. Third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors are requiring that companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. We cannot assure you that coverage and reimbursement will be available for any product that we commercialize and, if reimbursement is available, what the level of reimbursement will be. Coverage and reimbursement may impact the demand for, or the price of, any product for which we obtain marketing approval. If coverage and reimbursement is not available or is available only to limited levels, we may not be able to successfully commercialize any product candidate that we successfully develop and Forest may be unable to successfully market Namenda XR or MDX-8704.

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There may be significant delays in obtaining coverage and reimbursement for approved products, and coverage may be more limited than the purposes for which the product is approved by the FDA. Moreover, eligibility for reimbursement does not imply that any product will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, distribution, marketing, and sale. Interim payments for new products, if applicable, may also not be sufficient to cover our costs and may not be made permanent. Payment rates may vary according to the use of the product and the clinical setting in which it is used, may be based on payments allowed for lower cost products that are already reimbursed and may be incorporated into existing payments for other services. Net prices for products may be reduced by mandatory discounts or rebates required by government healthcare programs or private third-party payors and by any future relaxation of laws that presently restrict imports of products from countries where they may be sold at lower prices than in the United States. In the United States, private third-party payors often rely upon Medicare coverage and reimbursement policies and payment limitations in setting their own coverage and reimbursement policies. Our inability to promptly obtain coverage, reimbursement and profitable payment rates from both government funded and private third-party payors for new products that we develop, or products developed or marketed by Forest under our license agreement, could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products, and our overall financial condition.

If serious adverse side effects are identified during the development of ADS-5102 or any other product candidates, we may need to abandon our development of that product candidate.

Our product candidate ADS-5102, along with our other earlier stage product candidates, are still in clinical or pre-clinical development. The risk of failure during development is high. It is impossible to predict when or if any of our product candidates will prove safe and tolerable enough to receive regulatory approval. For example, amantadine, the active pharmaceutical ingredient in ADS-5102, carries the risk of blurred vision, dizziness, lightheadedness, faintness, trouble sleeping, depression or anxiety, hallucinations, swelling of the hands, legs, or feet, difficulty urinating, shortness of breath, and rash. These side effects may be the cause of the relatively low rate of acceptance of amantadine by physicians and patients. Although we believe our controlled-release version of amantadine has reduced the risks of these side effects, thereby enabling higher doses, there can be no assurance that our proposed Phase 3 registration trials or future studies in other indications will not fail due to safety or tolerability issues. In such an event, we might need to abandon development of ADS-5102 entirely or for certain indications. If we are forced to abandon development of our product candidates, our business, results of operations, and financial condition will be harmed.

Safety issues with Namenda XR, MDX-8704, or ADS-5102, or the parent drugs or other components of Namenda XR, MDX-8704, or ADS-5102, or with approved products of third parties that are similar to Namenda XR, MDX-8704, or ADS-5102, could decrease the potential sales of Namenda XR, MDX-8704 or ADS-5102 or give rise to delays in the regulatory approval process, restrictions on labeling, or product withdrawal.

Discovery of previously unknown problems, or increased focus on a known problem, with an approved product may result in restrictions on its permissible uses, including withdrawal of the medicine from the market. The label for Namenda XR lists potential side effects, such as headache, diarrhea, and dizziness. Side effects have been observed in clinical trial subjects taking MDX-8704 and ADS-5102, such as constipation, dizziness, hallucination, dry mouth, fall, confusion, headache, nausea, and weakness in the case of ADS-5102 and dizziness, headache, and diarrhea in the case of MDX-8704.

If we or others identify additional undesirable side effects caused by Namenda XR, or by MDX-8704 and ADS-5102 after approval:

- regulatory authorities may require the addition of labeling statements, specific warnings, contraindications, or field alerts to physicians and pharmacies;

- regulatory authorities may withdraw their approval of the product and require us to take our approved drug off the market;

- we may be required to change the way the product is administered, conduct additional clinical trials, change the labeling of the product, or implement a Risk Evaluation and Mitigation Strategy;

- we may have limitations on how we promote our drugs;

- third-party payors may limit coverage or reimbursement for our drugs;

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- sales of products may decrease significantly;
- we may be subject to litigation or product liability claims; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the affected product and could substantially increase our commercialization costs and expenses, which in turn could delay or prevent us from generating significant revenue from its sale.

Namenda XR, MDX-8704 or ADS-5102 may also be affected by the safety and tolerability of their parent drugs or drugs with similar mechanisms of action. Although memantine, which is a component of Namenda XR and MDX-8704, donepezil, which is a component MDX-8704, and amantadine, which is a component of ADS-5102, have been used in patients for many years, newly observed toxicities or worsening of known toxicities, in preclinical studies of, or in patients receiving, memantine, donepezil, or amantadine, or reconsideration of known toxicities of compounds in the setting of new indications, could result in increased regulatory scrutiny of our products and product candidates. The FDA has substantial discretion in the NDA approval process and may refuse to approve any application if the FDA concludes that the risk/benefit analysis of a potential drug treatment for a specific indication does not warrant approval. Thus, although the parent drug for, or a drug related to, one of our product candidates may be approved by the FDA in a particular indication, the FDA may conclude that our product candidate s risk/benefit profile does not warrant approval in a different indication, and the FDA may refuse to approve our product candidate. Such conclusion and refusal would prevent us from developing and commercializing our product candidates and severely harm our business and financial condition.

Following consumption, Namenda XR, MDX-8704 and ADS-5102 first are broken down by the body s natural metabolic processes, during which time the active drug and other breakdown substances are released into the bloodstream. While these breakdown substances are generally regarded as safe, it is possible that there could be unexpected toxicity associated with them that will cause Namenda XR, MDX-8704, or ADS-5102 to be poorly tolerated by, or toxic to, humans. Any unexpected toxicity of, or suboptimal tolerance to, the product or product candidates could reduce their sales of approved products and delay or prevent commercialization of our product candidates.

In addition, problems with approved products marketed by third parties that utilize the same therapeutic target or that belong to the same therapeutic class as memantine, amantadine, or donepezil could adversely affect the commercialization of Namenda XR, MDX-8704, and ADS-5102. For example, the product withdrawals of Vioxx from Merck and Bextra from Pfizer due to safety issues have caused other drugs that have the same therapeutic target, such as Celebrex from Pfizer, to receive additional scrutiny from regulatory authorities.

The marketing of ADS-5102 and MDX-8704, if approved, will be limited to use in the treatment of specific indications, and if we or Forest want to expand the indications for which these product candidates may be marketed, additional regulatory approvals will need to be obtained, which may not be granted.

We are currently seeking regulatory approval of ADS-5102 for the treatment of LID, and Forest is seeking regulatory approval of MDX-8704 for the treatment of moderate to severe dementia related to Alzheimer s disease. If these product candidates are approved, the FDA will restrict our and Forest s ability to market or advertise the products for other indications, which could limit physician and patient adoption. We or Forest may attempt to develop, promote and commercialize new treatment indications and protocols for the products in the future, but we cannot predict when or if the clearances required to do so will be received. In addition, we would be required to conduct additional clinical trials or studies to support approvals for additional indications for ADS-5102, which would be time consuming and expensive, and may produce results that do not support regulatory approvals. If we do not obtain additional regulatory approvals, our ability to expand our business will be limited.

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If our product candidates are approved for marketing, and we are found to have improperly promoted off-label uses, or if physicians misuse our products or use our products off-label, we may become subject to prohibitions on the sale or marketing of our products, significant fines, penalties, and sanctions, product liability claims, and our image and reputation within the industry and marketplace could be harmed.

The FDA and other regulatory agencies strictly regulate the marketing and promotional claims that are made about drug products, such as ADS-5102 and MDX-8704, if approved. In particular, a product may not be promoted for uses or indications that are not approved by the FDA or such other regulatory agencies as reflected in the product s approved labeling. For example, if we receive marketing approval for ADS-5102 for the treatment of LID, the first indication we are pursuing, we cannot prevent physicians from using our ADS-5102 products on their patients in a manner that is inconsistent with the approved label. If we are found to have promoted such off-label uses prior to FDA approval for an additional indication, we may receive warning letters and become subject to significant liability, which would materially harm our business. The federal government has levied large civil and criminal fines against companies for alleged improper promotion and has enjoined several companies from engaging in off-label promotion. If we become the target of such an investigation or prosecution based on our marketing and promotional practices, we could face similar sanctions, which would materially harm our business. In addition, management s attention could be diverted from our business operations, significant legal expenses could be incurred, and our reputation could be damaged. The FDA has also requested that companies enter into consent decrees or permanent injunctions under which specified promotional conduct is changed or curtailed. If we are deemed by the FDA to have engaged in the promotion of our products for off-label use, we could be subject to FDA prohibitions on the sale or marketing of our products or significant fines and penalties, and the imposition of these sanctions could also affect our reputation and position within the industry.

Physicians may also misuse our products, potentially leading to adverse results, side effects or injury, which may lead to product liability claims. If our products are misused, we may become subject to costly litigation by our customers or their patients. Product liability claims could divert management s attention from our core business, be expensive to defend and result in sizable damage awards against us that may not be covered by insurance. Furthermore, the use of our products for indications other than those cleared by the FDA may not effectively treat such conditions, which could harm our reputation in the marketplace among physicians and patients. Any of these events could harm our business and results of operations and cause our stock price to decline.

We currently have no sales or distribution personnel and only limited marketing capabilities. If we are unable to develop a sales and marketing and distribution capability, we will not be successful in commercializing ADS-5102 or other future approved products.

We do not have a significant sales or marketing infrastructure and have no experience in the sale, marketing or distribution of therapeutic products. To achieve commercial success for any approved product, we must either develop a sales and marketing organization or outsource these functions to third parties. We expect that the primary focus of our commercialization efforts will be the United States, and we intend to develop our own sales force to commercialize ADS-5102 and our other wholly-owned future approved products in the United States. Commercialization of ADS-5102 and other future approved products outside of the United States, to the extent pursued, is likely to require collaboration with one or more third parties.

There are risks involved with both establishing our own sales and marketing capabilities and entering into arrangements with third parties to perform these services. For example, recruiting and training a sales force is expensive and time-consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

In addition, our existing arrangements for the commercialization of Namenda XR and MDX-8704 may not be successful and we also may not be successful entering into new arrangements with third parties to sell and market our future approved products or may be unable to do so on terms that are favorable to us. We have and will in the future be likely to have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively and could damage our reputation. If we fail to appropriately estimate the size of sales force required to market our products, our commercialization efforts will be adversely affected. If we do not establish sales and marketing capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our future approved products.

Our future products may fail to achieve the degree of market acceptance by physicians, patients, healthcare payors, and others in the medical community necessary for commercial success.

Our future products may fail to gain sufficient market acceptance by physicians, hospital administrators, patients, healthcare payors, and others in the medical community. The degree of market acceptance of our products, after being approved for commercial sale, will depend on a number of factors, including:

- the prevalence and severity of any side effects;
- efficacy, duration of response, and potential advantages compared to alternative treatments;
- the price we charge;
- the willingness of physicians to change their current treatment practices;
- convenience and ease of administration compared to alternative treatments;
- the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;
- the strength of marketing and distribution support; and
- the availability of third-party coverage or reimbursement.

For example, the absence of approved therapeutics to treat LID may require us to educate healthcare providers and patients about LID.

Delays in the enrollment of patients in any of our clinical trials could increase our development costs and delay completion of the study.

We may not be able to initiate or continue clinical studies for our product candidates if we are unable to locate and enroll a sufficient number of eligible patients to participate in these studies as required by the FDA or other regulatory authorities. For example, location and enrollment of eligible patients may be adversely affected by our inability to locate and activate clinical study sites at a satisfactory pace to meet our planned timetables. Even if we are able to enroll a sufficient number of patients in our clinical studies, if the pace of enrollment is slower than we expect, the development costs for our product candidates may increase, the completion of our studies may be delayed, or our studies could become too expensive to complete. The study design for our Phase 3 trials of ADS-5102 for the treatment of LID is placebo controlled, meaning that a portion of patients will not receive treatment that may help control the symptoms of their Parkinson s disease. Because these symptoms are uncomfortable, a relatively long study period may make it more difficult to enroll and retain patients in the trial.

We face substantial competition, which may result in others discovering, developing, or commercializing products before or more successfully than we do.

The development and commercialization of new therapeutic products is highly competitive. We face competition with respect to our current product candidates, and will face competition with respect to any products that we may seek to develop or commercialize in the future, from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide. For example, in the market for Alzheimer s disease treatments, Namenda XR and MDX-8704 compete or will compete with generic products such as galatamine, rivastigmine and donepezil as well as branded products such as the Exelon patch (Novartis Pharmaceuticals Corp.) and Aricept 23 mg (Eisai Inc.). ADS-5102, if approved, may face competition from various drugs approved for treatment of Parkinson s disease, though not LID, such as Azilect (Teva Pharmaceuticals Industries, Ltd.), Requip XL (GlaxoSmithKline plc.), Mirapex ER (Boehringer Ingelheim Pharmaceuticals Inc.), Neupro Patch (UCB, Inc.), Comtan (Novartis Pharmaceuticals Corp.), Sinemet (Merck & Co., Inc.), Parcopa (Jazz Pharmaceutcials, Inc.), Apokyn (Mylan Laboratories, Inc.), Bromocriptine (Mylan Laboratories, Inc.), Zelapar (Valeant Pharmaceuticals International), Eldepryl (Somerset Pharmaceuticals Inc.), Tasmar (Valeant Pharmaceuticals International), Cogentin (Oaks Pharma Akorn), Exelon (Novartis Pharmaceuticals Corp.), and Stalevo (Novartis Pharmaceuticals Corp.). ADS-5102 may also face competition from drugs currently in development for Parkinson s or LID, such as safinamide (Newron Pharmaceuticals S.p.A.), AVP-923 (Avanir Pharmaceuticals, Inc.), eltoprazine (Amarantus BioScience Holdings, Inc.), DM-1992 (Depomed Inc.), IPX-066 (Impax Laboratories, Inc.), ABT-SLV187 (AbbVie Inc.), AVE8112 (Sanofi), MK0657 (Cerecor, Inc.), AAV-hAADC-2 (Sanofi), OS-320 (Osmotica Pharmaceuticals, Corp), AFFITOPE PD01A (Affiris

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AG), PRX002 (Prothena Biosciences), BIA 9 1067 (Bial Portela), SYN115 (Biotie Therapies Corp.), and PF-06669571 (Pfizer Inc.). ADS-5102 may also face competition from generic versions of amantadine and from other controlled-release versions of amantadine that may be in development. One of these companies has posted a notice on clinicaltrials.gov regarding plans to conduct two Phase 3 clinical trials of extended release amantadine for LID. Potential competitors also include academic institutions, government agencies, and other public and private research organizations that conduct research, seek patent protection, and establish collaborative arrangements for research, development, manufacturing, and commercialization. Many of these competitors are attempting to develop therapeutics for our target indications. In addition, many of our competitors are large pharmaceutical companies that will have a greater ability to reduce prices for their competing drugs in an effort to gain market share and undermine the value proposition that we might otherwise be able to offer to payors.

Many of our competitors, including a number of large pharmaceutical companies that compete directly with us, have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals, and marketing and selling approved products than we do. Mergers and acquisitions in the pharmaceutical, biotechnology, and diagnostic industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller or early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical study sites, and patient registration for clinical studies, as well as in acquiring technologies and products complementary to, or necessary for, our programs.

Product liability lawsuits against us could cause us to incur substantial liabilities and limit commercialization of any products that we may develop.*

We face an inherent risk of product liability exposure related to the testing of our product candidates in human clinical studies and will face an even greater risk upon commercial sale of any products that are ultimately approved. If we cannot successfully defend ourselves against claims that our product candidates or products caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for any product candidates or products that we may develop;
- the inability to commercialize any products that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of patients from clinical studies or cancellation of studies;
- significant costs to defend the related litigation;

- substantial monetary awards to patients; and
- loss of revenue.

We currently hold $10.0 million in product liability insurance coverage, which may not be adequate to cover all liabilities that we may incur at our current stage of development. Insurance coverage is increasingly expensive. If and when our product candidates are approved and we launch such products commercially, we may not be able to obtain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability or associated costs that may arise in the future.

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and managerial resources, we focus on research programs and product candidates for specific indications. As a result, we may forego or delay pursuit of opportunities with other product candidates or other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable products.

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If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing, or other royalty arrangements in cases in which it would have been advantageous for us to retain sole development and commercialization rights.

Risks related to our reliance on third parties

We have entered into a license agreement with Forest with respect to MDX-8704 and Namenda XR, and may enter into additional license or collaboration agreements. These arrangements may place the development of these product candidates outside our control, may require us to relinquish important rights, or may otherwise be on terms unfavorable to us, and if our collaborations are not successful, these product candidates may not reach their full market potential.

In November 2012 we entered into a license agreement with Forest pursuant to which we granted Forest a co-exclusive right to develop and an exclusive right to commercialize fixed-dose memantine-donepezil products, such as MDX-8704, in the United States, and granted Forest a license covering controlled-release versions of memantine, such as Namenda XR. Under the terms of the license agreement, Forest substantially controls the commercialization of these products. Collaborations involving our current or future products, such as our agreement with Forest, are subject to numerous risks, which may include that:

- collaborators have significant discretion in determining the efforts and resources that they will apply to collaborations;
- collaborators may not pursue development and commercialization of our product candidates or may elect not to continue or renew development or commercialization programs based on clinical study results, changes in their strategic focus due to the acquisition of competitive products, availability of funding, or other external factors, such as a business combination that diverts resources or creates competing priorities;
- collaborators may delay clinical studies, provide insufficient funding for a clinical study program, stop a clinical study, abandon a product candidate, repeat or conduct new clinical studies, or require a new formulation of a product candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our products or product candidates;
- a collaborator with marketing, manufacturing, and distribution rights to one or more products may not commit sufficient resources to or otherwise not perform satisfactorily in carrying out these activities;
- we could grant exclusive rights to our collaborators that would prevent us from collaborating with others;

- collaborators may not properly maintain or defend our intellectual property rights or may use our intellectual property or proprietary information in a way that gives rise to actual or threatened litigation that could jeopardize or invalidate our intellectual property or proprietary information or expose us to potential liability;

- collaborators may not aggressively or adequately pursue litigation against ANDA filers or may settle such litigation on unfavorable terms;

- disputes may arise between us and a collaborator that causes the delay or termination of the research, development or commercialization of our current or future products or that results in costly litigation or arbitration that diverts management attention and resources;

- collaborations may be terminated, sometimes at-will, without penalty, such as with Forest, and, if terminated, may result in a need for additional capital to pursue further development or commercialization of the applicable current or future products;

- collaborators may own or co-own intellectual property covering our products that results from our collaborating with them, and in such cases, we would not have the exclusive right to commercialize such intellectual property; and

- a collaborator s sales and marketing activities or other operations may not be in compliance with applicable laws resulting in civil or criminal proceedings.

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On July 1, 2014, Actavis and Forest announced the completion of the previously announced acquisition of Forest by Actavis. We cannot predict whether this acquisition will have an impact on our business or on the license agreement with Forest.

We rely on third parties to conduct our clinical trials, and those third parties may not perform satisfactorily, including failing to meet deadlines for the completion of these trials.

We do not independently conduct clinical studies of our product candidates. Instead, we rely on third parties, such as CROs, clinical data management organizations, medical institutions, and clinical investigators to perform this function. Our reliance on these third parties for clinical development activities reduces our control over these activities, but does not relieve us of our responsibilities. For example, the FDA requires us to comply with standards, commonly referred to as Good Clinical Practice, for conducting, recording, and reporting the results of clinical studies to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of patients in clinical studies are protected, even though we are not in control of these processes. These third parties may also have relationships with other entities, some of which may be our competitors. If these third parties do not successfully carry out their contractual duties, meet expected deadlines, or conduct our clinical studies in accordance with regulatory requirements or our stated protocols, we will not be able to obtain, or may be delayed in obtaining, regulatory approvals for our product candidates and will not be able to, or may be delayed in our efforts to, successfully commercialize our product candidates.

We also rely on other third parties to store and distribute supplies for our clinical studies. Any performance failure on the part of our existing or future distributors could delay clinical development or regulatory approval of our product candidates or commercialization of our products, producing additional losses and depriving us of potential product revenue.

We rely on third-party contract manufacturing organizations to manufacture and supply our product candidates for us. If one of our suppliers or manufacturers fails to perform adequately or fulfill our needs, we may be required to incur significant costs and devote significant efforts to find new suppliers or manufacturers. We may also face delays in the development and commercialization of our product candidates.

We currently have limited experience in, and we do not own facilities for, clinical-scale manufacturing of our product candidates and we rely upon third- party contract manufacturing organizations to manufacture and supply drug product for our clinical studies. The manufacture of pharmaceutical products in compliance with the FDA s current Good Manufacturing Practices, or cGMPs, requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, including difficulties with production costs and yields, quality control, including stability of the product candidate and quality assurance testing, shortages of qualified personnel, as well as compliance with strictly enforced cGMP requirements, other federal and state regulatory requirements, and foreign regulations. If our manufacturers were to encounter any of these difficulties or otherwise fail to comply with their obligations to us or under applicable regulations, our ability to provide study drugs in our clinical trials would be jeopardized. Any delay or interruption in the supply of clinical study materials could delay the completion of our clinical studies, increase the costs associated with maintaining our clinical study programs and, depending upon the period of delay, require us to commence new studies at significant additional expense or terminate the studies completely.

All manufacturers of our product candidates must comply with cGMP requirements enforced by the FDA through its facilities inspection program. These requirements include, among other things, quality control, quality assurance, and the maintenance of records and documentation. Manufacturers of our product candidates may be unable to comply with these cGMP requirements and with other FDA, state and foreign regulatory requirements. The FDA or similar foreign regulatory agencies may also implement new standards at any time, or change their interpretation and enforcement of existing standards for manufacture, packaging, or testing of products. We have little control over our manufacturers compliance with these regulations and standards. A failure to comply with these requirements may result in fines and civil penalties, suspension of production, suspension or delay in product approval, product seizure or recall, or withdrawal of product approval. If the safety of any product supplied is compromised due to our manufacturers failure to adhere to applicable laws or for other reasons, we may not be able to obtain regulatory approval for or successfully commercialize our products and we may be held liable for any injuries sustained as a result. Any of these factors could cause a delay of clinical studies, regulatory submissions, approvals or commercialization of our product candidates, entail higher costs, or impair our reputation.

We currently rely on single source suppliers for each of our product candidates under a development agreement. We do not have long-term supply agreements in place. Although we believe alternative sources of supply exist, the number of third-party suppliers with the necessary manufacturing and regulatory expertise and facilities is limited, and it could be expensive and take a significant amount of time to arrange for alternative suppliers, which would adversely affect our business. New suppliers of any product candidate would be required to qualify under applicable regulatory requirements and would need to have sufficient rights under applicable intellectual property laws to the method of manufacturing the product candidate. Obtaining the necessary FDA approvals or other qualifications under applicable regulatory requirements and ensuring non-infringement of third-party intellectual property rights could result in a significant interruption of supply and could require the new manufacturer to bear significant additional costs, which may be passed on to us.

Risks related to the operation of our business

Our future success depends on our ability to retain our chief executive officer and other key executives and to attract, retain and motivate qualified personnel.

We are highly dependent on our chief executive officer and the other members of our executive and scientific teams. Our executives may terminate their employment with us at any time. The loss of the services of any of these people could impede the achievement of our research, development, and commercialization objectives. We maintain key person insurance for our chief executive officer, but not for any other executives or employees. Any insurance proceeds we may receive under this key person insurance would not adequately compensate us for the loss of our chief executive officer s services.

Recruiting and retaining qualified scientific, clinical, manufacturing, and sales and marketing personnel will also be critical to our success. We may not be able to attract and retain these personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategies. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us.

We expect to expand our development, regulatory, and sales and marketing capabilities, and, as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

As of September 30, 2014, we had 34 employees. Over the next several years, we expect to experience significant growth in the number of our employees and the scope of our operations, particularly in sales and marketing. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources and the limited experience of our management team in managing a company with such anticipated growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The physical expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

We are an emerging growth company, and we cannot be certain whether the reduced reporting requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act, or the JOBS Act, which was enacted in April 2012. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the

Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of our initial public offering, (b) in which we have total annual gross revenue of at least $1.0 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non- affiliates exceeds $700 million as of the prior June 30th, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may suffer or be more volatile.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our operations could be subject to earthquakes, power shortages, telecommunications failures, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics, and other natural or manmade disasters or business interruptions. The occurrence of any of these business disruptions could seriously harm our operations and financial condition and increase our costs and expenses. Our corporate headquarters is located in California and certain clinical sites for our product candidates, operations of our existing and future partners, and suppliers are or will be located in California near major earthquake faults and fire zones. The ultimate impact on us, our significant partners, suppliers, and our general infrastructure of being located near major earthquake faults and fire zones and being consolidated in certain geographical areas is unknown, but our operations and financial condition could suffer in the event of a major earthquake, fire, or other natural or manmade disaster.

If we obtain approval to commercialize any approved products or utilize CMOs outside of the United States, a variety of risks associated with international operations could materially adversely affect our business. If any product candidates that we may develop are approved for commercialization outside the United States, we will be subject to additional risks related to entering into international business relationships, including:

- different regulatory requirements for drug approvals in foreign countries;
- reduced protection for intellectual property rights;
- unexpected changes in tariffs, trade barriers, and regulatory requirements;
- economic weakness, including inflation or political instability in particular foreign economies and markets;
- difficulties in assuring compliance with foreign corrupt practices laws;

- compliance with tax, employment, immigration, and labor laws for employees living or traveling abroad;

- foreign taxes, including withholding of payroll taxes;

- foreign currency fluctuations, which could result in increased operating expenses and reduced revenue, and other obligations incident to doing business in another country;

- workforce uncertainty in countries where labor unrest is more common than in the United States;

- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and

- business interruptions resulting from geopolitical actions, including war and terrorism, or natural disasters, including earthquakes, typhoons, floods, and fires.

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Our internal computer systems, or those of our CROs, CMOs, or other contractors or consultants, may fail or suffer security breaches, which could result in a material disruption of our drug development programs.

Despite the implementation of security measures, our internal computer systems and those of our CROs, CMOs, and other contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war, and telecommunication and electrical failures. While we have not experienced any such system failure, accident, or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our drug development programs or commercialization efforts. For example, the loss of clinical study data from completed or ongoing clinical studies for any of our product candidates could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. While we back-up our internal computer systems periodically and store such data off-site, we can offer no assurance that such off-site storage of data will allow us to continue our business without interruptions to our operations, which could result in a material disruption of our drug development programs or commercialization efforts. To the extent that any disruption or security breach were to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development of our product candidates could be delayed.

Risks related to intellectual property

Our ability to successfully commercialize our technology and products may be materially adversely affected if we are unable to obtain and maintain effective intellectual property rights for our technologies and product candidates.

Our success depends in large part on our ability to obtain and maintain patent and other intellectual property protection in the United States and in other countries with respect to our proprietary technology and products. In some circumstances, we may not have the right to control the preparation, filing, and prosecution of patent applications, or to maintain or enforce the patents, covering technology or products that we license to third parties or that we may license from third parties. Therefore, we cannot be certain that these patents and applications will be prosecuted and enforced in a manner consistent with the best interests of our business. In addition, if third parties who license patents to us or from us fail to maintain such patents, or lose rights to those patents, the rights we have licensed may be reduced or eliminated.

We have sought to protect our proprietary position by filing patent applications in the United States and abroad related to our novel technologies and products that are important to our business. This process is expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. In addition, we may not pursue or obtain patent protection in all relevant markets. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. Our pending and future patent applications may not result in patents being issued which protect our technology or products, in whole or in part. In addition, our existing patents and any future patents we obtain may not be sufficiently broad to prevent others from using our technologies or from developing competing products and technologies.

The patent position of specialty pharmaceutical and biotechnology companies generally is highly uncertain and involves complex legal and factual questions for which many legal principles remain unresolved. In recent years patent rights have been the subject of significant litigation. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain. Our pending and future patent applications may not result in patents being issued in the United States or in other jurisdictions which protect our technology or products or which effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection. In addition, the laws of foreign countries may not protect our rights to the same extent as the laws of the United States. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot be certain that we were the first to make the inventions claimed in our patents or pending patent applications, or that we were the first to file for patent protection of such inventions. In addition, the United States Patent and Trademark Office, or USPTO, might require that the term of a patent issuing from a pending patent application be disclaimed and limited to the term of another patent that is commonly owned or names a common inventor. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights is highly uncertain.

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Recent or future patent reform legislation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents. In March 2013, under the recently enacted Leahy-Smith America Invents Act, or America Invents Act, the United States moved from a first to invent to a first-to-file system. Under a first-to-file system, assuming the other requirements for patentability are met, the first inventor to file a patent application generally will be entitled to a patent on the invention regardless of whether another inventor had made the invention earlier. The America Invents Act includes a number of other significant changes to U.S. patent law, including provisions that affect the way patent applications are prosecuted, redefine prior art and establish a new post-grant review system. The effects of these changes are currently unclear as the USPTO only recently developed new regulations and procedures in connection with the America Invents Act and many of the substantive changes to patent law, including the first-to-file provisions, only became effective in March 2013. In addition, the courts have yet to address any of these provisions and the applicability of the act and new regulations on specific patents discussed herein have not been determined and would need to be reviewed. However, the America Invents Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

We may become involved in opposition, interference, derivation, *inter partes* review, or other proceedings challenging our patent rights or the patent rights of others, and the outcome of any proceedings are highly uncertain. An adverse determination in any such proceeding could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our technology or products and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize products without infringing third-party patent rights.

Even if our patent applications issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors from competing with us, or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our owned or licensed patents by developing similar or alternative technologies or products in a non-infringing manner. The issuance of a patent is not conclusive as to its scope, validity, or enforceability, and our owned and licensed patents may be challenged in the courts or patent offices in the United States and abroad. Such challenges may result in the patent claims of our owned or licensed patents being narrowed, invalidated, or held unenforceable, which could limit our ability to stop or prevent us from stopping others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. Given the amount of time required for the development, testing, and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours or otherwise provide us with a competitive advantage.

We may not be able to protect our intellectual property rights throughout the world.

Filing, prosecuting, and defending patents on all of our product candidates throughout the world would be prohibitively expensive. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where we have patent protection but where enforcement is not as strong as in the United States. These products may compete with our product candidates in jurisdictions where we do not have any issued patents, and our patent claims or other intellectual property rights may not be effective or sufficient to prevent them from so competing. Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biopharmaceuticals, which could make it difficult for us to stop the infringement of our patents or marketing of competing products against third parties in violation of our proprietary rights generally. The initiation of proceedings by third parties to enforce our patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

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Obtaining and maintaining our patent protection depends upon compliance with various procedural, document submission, fee payment, and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment, and other provisions during the patent prosecution process and following the issuance of a patent. Our failure to comply with such requirements could result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, competitors might be able to enter the market earlier than would otherwise have been the case if our patent were in force.

We may become involved in lawsuits or other proceedings to protect or enforce our patents or other intellectual property, which could be expensive, time-consuming, and unsuccessful.

Competitors may infringe or otherwise violate our patents, trademarks, copyrights or other intellectual property. To counter infringement or unauthorized use, we or our licensees may be required to file infringement claims, which can be expensive and time-consuming. For example, in January, February, April, and May 2014, we, Forest, Forest Laboratories Holdings Ltd., Merz Pharma GmbH & Co. KGaA, and Merz Pharmaceuticals GmbH filed patent infringement lawsuits under Forest s patents and patents owned by us and licensed to Forest, against several manufacturers of generic pharmaceuticals that have filed ANDAs with the FDA seeking approval to manufacture and sell generic versions of Namenda XR. We anticipate that the prosecution of the lawsuits will require a significant amount of time and attention of our chief executive officer and other senior executives. In addition, in a patent infringement proceeding, a court may decide that a patent of ours is invalid or unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in the Forest litigation or any other litigation or proceeding could put one or more of our patents at risk of being invalidated or interpreted narrowly. Such a result could limit our ability to prevent others from using or commercializing similar or identical technology and products, limit our ability to prevent others from launching generic versions of our products and could limit the duration of patent protection for our products, all of which could have a material adverse effect on our business. A successful challenge to our patents could reduce or eliminate our right to receive royalties from Forest. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation.

In early November 2014, we, Forest, and Merz entered into a Settlement Agreement with Wockhardt Limited, one of the parties sued by us and Forest for infringement of our patents. Pursuant to this agreement, Worckhardt received a non-exclusive license to make and sell its generic versions of Namenda XR starting March 23, 2026, which is two months prior to the expiration of the last to expire of our relevant patents.

Third parties may initiate legal proceedings alleging that we or our collaborators are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our commercial success depends upon our ability and the ability of our collaborators to develop, manufacture, market, and sell our product candidates and to use our proprietary technologies without infringing, misappropriating, or otherwise violating the proprietary rights or intellectual property of third parties. We or our collaborators may become party to, or be threatened with, future adversarial proceedings or litigation regarding intellectual property rights with respect to our products and technology, including interference, derivation, re-examination, *inter partes* review, post-grant review, opposition, or similar proceedings before the USPTO and its foreign counterparts. The costs of these proceedings could be substantial, and the proceedings may result in a loss of such intellectual property rights. Some of our competitors may be able to sustain the costs of complex patent disputes and litigation more effectively than we can, because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any disputes or litigation could adversely affect our ability to raise the funds necessary to continue our operations. Third parties may assert infringement claims against us or our collaborators based on existing patents or patents that may be granted in the future. For example, in December 2013 Teva Pharmaceuticals USA and Mayne Pharma International jointly initiated a lawsuit against Forest alleging that the manufacture and commercialization of Namenda XR by Forest infringes the plaintiffs U.S. patent. Under our license agreement with Forest we are obliged to indemnify Forest under certain circumstances and our royalty entitlements may also be reduced. Our indemnification obligation to Forest, while subject to customary limitations, has no monetary cap, and our right to receive royalties from Forest may be eliminated in any calendar quarter in which certain third party generic competition exists. If we or our collaborators are found to infringe a third-party s intellectual property rights, we could be required to obtain a license from such third-party to continue developing and marketing our products and technology. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. We could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, we could be found liable for monetary damages. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could materially harm our business. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business.

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We may be unable to protect the confidentiality of our trade secrets, thus harming our business and competitive position.

In addition to our patented technology and products, we rely upon trade secrets, including unpatented know-how, technology, and other proprietary information, to develop and maintain our competitive position, which we seek to protect, in part, by confidentiality agreements with our employees, our collaborators, and consultants. We also have agreements with our employees and selected consultants that obligate them to assign their inventions to us. However, while it is our policy to require our employees and contractors who may be involved in the conception or development of intellectual property to execute such agreements, we may be unsuccessful in executing such an agreement with each party who in fact conceives or develops intellectual property that we regard as our own. In addition, it is possible that technology relevant to our business will be independently developed by a person that is not a party to such an agreement. While to our knowledge the confidentiality of our trade secrets has not been compromised, if the employees, consultants or collaborators that are parties to these agreements breach or violate the terms of these agreements, we may not have adequate remedies for any such breach or violation, and we could lose our trade secrets through such breaches or violations. Further, our trade secrets could be disclosed, misappropriated, or otherwise become known or be independently discovered by our competitors. In addition, intellectual property laws in foreign countries may not protect our intellectual property to the same extent as the laws of the United States. If our trade secrets are disclosed or misappropriated, it would harm our ability to protect our rights and adversely affect our business.

We may be subject to claims that our employees have wrongfully used or disclosed intellectual property of their former employers. Intellectual property litigation or proceedings could cause us to spend substantial resources and distract our personnel from their normal responsibilities.

Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, and we have no knowledge of any instances of wrongful use or disclosure by our employees to date, we may be subject to claims that we or these employees have used or disclosed intellectual property, including trade secrets or other proprietary information, of an employee s former employer. Litigation may be necessary to defend against these claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. Even if we are successful in defending against such claims, litigation, or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions, or other interim proceedings or developments, and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. This type of litigation or proceeding could substantially increase our operating losses and reduce our resources available for development activities. We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their substantially greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other intellectual property related proceedings could adversely affect our ability to compete in the marketplace.

Risks related to government regulation

The regulatory approval process is expensive, time consuming, and uncertain and may prevent us or our collaboration partners from obtaining approvals for the commercialization of some or all of our product candidates.*

The research, testing, manufacturing, labeling, approval, selling, import, export, marketing, and distribution of drug products are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, which regulations differ from country to country. Neither we nor our collaboration partners are permitted to market our product candidates in the United States until we receive FDA approval of an NDA. We have not submitted an application or received marketing approval

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for any of our product candidates. Obtaining approval of an NDA can be a lengthy, expensive, and uncertain process. In addition, failure to comply with FDA and other applicable U.S. and foreign regulatory requirements may subject us to administrative or judicially imposed sanctions, including:

- warning letters;
- civil or criminal penalties and fines;
- injunctions;
- suspension or withdrawal of regulatory approval;
- suspension of any ongoing clinical studies;
- voluntary or mandatory product recalls and publicity requirements;
- refusal to accept or approve applications for marketing approval of new drugs or biologics or supplements to approved applications filed by us;
- restrictions on operations, including costly new manufacturing requirements; or
- seizure or detention of our products or import bans.

Prior to receiving approval to commercialize any of our product candidates in the United States or abroad, we and our collaboration partners must demonstrate with substantial evidence from well-controlled clinical studies, and to the satisfaction of the FDA and other regulatory authorities abroad, that such product candidates are safe and effective for their intended uses. Results from preclinical studies and clinical studies can be interpreted in different ways. Even if we and our collaboration partners believe the preclinical or clinical data for our product candidates are promising, such data may not be sufficient to support approval by the FDA and other regulatory authorities. Administering any of our product candidates to humans may produce undesirable side effects, which could interrupt, delay, or cause suspension of clinical studies of our product candidates and result in the FDA or other regulatory authorities denying approval of our product candidates for any or all targeted indications.

FDA approval of an NDA is not guaranteed, and the approval process is expensive and may take several years. The FDA also has substantial discretion in the approval process. Despite the time and expense exerted, failure can occur at any stage, and we could encounter problems that cause us to repeat clinical studies, perform additional preclinical studies and clinical studies, or abandon development and commercialization of a product candidate altogether. The number of preclinical studies and clinical studies that will be required for FDA approval varies depending on the product candidate, the disease or condition that the product candidate is designed to address, and the regulations applicable to any particular product candidate. The FDA can delay, limit, or deny approval of a product candidate for many reasons, including that:

- a product candidate may not be deemed safe or effective;
- FDA officials may not find the data from preclinical studies and clinical studies sufficient;
- the FDA might not approve our or our third-party manufacturer s processes or facilities; or
- the FDA may change its approval policies or adopt new regulations.

If any of our product candidates fails to demonstrate safety and efficacy in clinical studies or does not gain regulatory approval, our business and results of operations will be materially and adversely harmed.

Our competitors could obtain orphan drug exclusivity for their drug products in certain of our target indications, which could delay any marketing approval of our drug product candidates in those target indications.

Under the Orphan Drug Act, the FDA may designate a drug product as an orphan drug if it is a drug or biologic intended to treat a rare disease or condition. Generally, if a drug product with an orphan drug designation subsequently receives the first marketing approval for the indication for which it has such designation, the drug product is entitled to a period of marketing exclusivity, which may preclude the FDA from approving another marketing application for the same drug product for the same therapeutic indication. The applicable period of exclusivity is up to seven years in the United States. If any of our competitors obtain orphan drug exclusivity for their product candidate in one of our target indications, the marketing application for our drug product in that target indication could be delayed for so long as the competitor has orphan drug exclusivity for its product.

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If the FDA does not conclude our product candidates satisfy the requirements for approval under the Section 505(b)(2) regulatory approval pathway, or if the requirements for approval under Section 505(b)(2) are not as we expect, the approval pathway for our products will likely take significantly longer, cost significantly more and entail significantly greater complications and risks than anticipated, and in any case may not be successful.

We are developing our current and future product candidates, including ADS-5102, and Forest is developing MDX-8704, with the expectation that they will be eligible for approval through the Section 505(b)(2) regulatory pathway. Section 505(b)(2) of the FDCA allows an NDA to rely in part on data in the public domain or the FDA s prior conclusions regarding the safety and effectiveness of an approved drug product. Consequently, use of the Section 505(b)(2) regulatory pathway could expedite the development program for our product candidates by potentially decreasing the amount of clinical data that would need to be generated in order to obtain FDA approval. If the FDA does not allow us to pursue the Section 505(b)(2) regulatory pathway as anticipated, we or Forest may need to conduct additional clinical trials, provide additional data and information, and meet additional standards for product approval. If this were to occur, the time and financial resources required to obtain FDA approval for our product candidates, and complications and risks associated with regulatory approval of would likely substantially increase. Moreover, inability to pursue the Section 505(b)(2) regulatory pathway may result in new competitive products reaching the market more quickly than our product candidates, which would adversely impact our competitive position and prospects. Even if we are able to utilize the Section 505(b)(2) regulatory pathway, there is no guarantee that utilizing this pathway will ultimately lead to accelerated product development or earlier approval for MDX-8704, ADS-5102, or any other product candidate that we may attempt to develop and commercialize.

In addition, a company obtaining an approved NDA through the Section 505(b)(2) regulatory pathway for a drug product whose active moiety is the same active moiety as that in a previously approved drug (e.g. amantadine HCl) is entitled to three years of market exclusivity if clinical data (other than a bioavailability or bioequivalence study) is required by the FDA to support its findings of safety and efficacy of the approved product. If a competing product were to be approved in our target indication through the Section 505(b)(2) regulatory pathway and granted three years of market exclusivity, and if the FDA were to find that our product candidate (e.g. ADS-5102) does not differ with respect to active moiety, dosage form and strength, route of administration and indicated use from the approved competing product, then approval of the marketing application for ADS-5102 in the target indication under Section 505(b)(2) may be delayed for as long as a competitor has exclusivity.

Even if we receive regulatory approval for a particular product candidate, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense and subject us to penalties if we fail to comply with applicable regulatory requirements.

Once regulatory approval has been granted for a particular product candidate, the approved product and its manufacturer are subject to continual review by the FDA and/or non-U.S. regulatory authorities. Any regulatory approval that we or our collaboration partners receive for our product candidates may be subject to limitations on the indicated uses for which the product may be marketed or contain requirements for potentially costly post-marketing follow-up studies to monitor the safety and efficacy of the product. In addition, if the FDA and/or non-U.S. regulatory authorities approve any of our product candidates, we will be subject to extensive and ongoing regulatory requirements by the FDA and other regulatory authorities with regard to the labeling, packaging, adverse event reporting, storage, advertising, promotion, tracking and recordkeeping for our products. Further, manufacturers of our drug products are required to comply with cGMP regulations, which include requirements related to quality control and quality assurance as well as the corresponding maintenance of records and documentation. Additionally, regulatory authorities must approve these manufacturing facilities before they can be used to manufacture our drug products, and these facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with cGMP regulations. If we or a third party discover previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory authority may impose restrictions on that product, the manufacturer or us, including requiring withdrawal of the product from the market or suspension of manufacturing. If we, our product candidates or the manufacturing facilities for our

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product candidates fail to comply with regulatory requirements of the FDA and/or other non-U.S. regulatory authorities, we could be subject to administrative or judicially imposed sanctions, including:

- warning letters;
- civil or criminal penalties and fines;
- injunctions;
- suspension or withdrawal of regulatory approval;
- suspension of any ongoing clinical studies;
- voluntary or mandatory product recalls and publicity requirements;
- refusal to approve pending applications for marketing approval of new drugs or supplements to approved applications filed by us;
- restrictions on operations, including costly new manufacturing requirements; or
- seizure or detention of our products or import bans.

The regulatory requirements and policies may change and additional government regulations may be enacted for which we may also be required to comply. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or in other countries. If we are not able to maintain regulatory compliance, we may not be permitted to market our future products and our business may suffer.

Failure to obtain regulatory approvals in foreign jurisdictions will prevent us from marketing our products internationally.

We may decide to commercialize ADS-5102, ADS-8704, and other future product candidates outside of the United States. To market our future products in the European Economic Area, or EEA, and many other foreign jurisdictions, we must obtain separate regulatory approvals. Specifically, in the EEA medicinal products can only be commercialized after obtaining a Marketing Authorization, or MA.

Before granting an MA, the European Medicines Agency or the competent authorities of the member states of the EEA make an assessment of the risk-benefit balance of the product on the basis of scientific criteria concerning its quality, safety, and efficacy.

We have had limited interactions with foreign regulatory authorities. The approval procedures vary among countries and can involve additional clinical testing, and the time required to obtain approval may differ from that required to obtain FDA approval. Clinical studies conducted in one country may not be accepted by regulatory authorities in other countries. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one or more foreign regulatory authorities does not ensure approval by regulatory authorities in other foreign countries or by the FDA. However, a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in others. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. We may not obtain foreign regulatory approvals on a timely basis, if at all. We may not be able to file for regulatory approvals and even if we file we may not receive necessary approvals to commercialize our products in any market. If we are unable to obtain non-U.S. regulatory approval to market our product candidates in other countries, we may not be able to achieve the financial results we project and our stock price could decline.

Healthcare reform measures could hinder or prevent our product candidates commercial success.

In the United States, there have been and we expect there will continue to be a number of legislative and regulatory changes to the healthcare system that could affect our future revenue and profitability and the future revenue and profitability of our potential customers. Federal and state lawmakers regularly propose and, at times, enact legislation that would result in significant changes to the healthcare system, some of which are intended to contain or reduce the costs of medical products and services. For example, one of the most significant healthcare reform measures in decades, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or, collectively, the PPACA, was enacted in 2010.

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The PPACA contains a number of provisions, including those governing enrollment in federal healthcare programs, reimbursement changes and fraud and abuse measures, all of which will impact existing government healthcare programs and will result in the development of new programs. The PPACA, among other things:

- imposes a non-deductible annual fee on entities that manufacture or import certain branded prescription drugs;
- increases the minimum level of Medicaid rebates payable by manufacturers of brand-name drugs from 15.1% to 23.1%;
- requires collection of rebates for drugs paid by Medicaid managed care organizations; and
- provides for a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable branded drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer s outpatient drugs to be covered under Medicare Part D.

While the U.S. Supreme Court upheld the constitutionality of most elements of the PPACA in June 2012, other legal challenges are still pending final adjudication in several jurisdictions. In addition, Congress has also proposed a number of legislative initiatives, including possible repeal of the PPACA. At this time, it remains unclear whether there will be any changes made to the PPACA, whether to certain provisions or its entirety. We can provide no assurance that the PPACA, as currently enacted or as amended in the future, will not adversely affect our business and financial results, and we cannot predict how future federal or state legislative or administrative changes relating to healthcare reform will affect our business.

The continuing efforts of the government, insurance companies, managed care organizations, and other payors of healthcare services to contain or reduce costs of healthcare may, among other things, adversely affect:

- our ability to set a price we believe is fair for our products;
- our ability to generate revenue and achieve or maintain profitability; and
- the availability of capital.

If we fail to comply with healthcare regulations, we could face substantial penalties and our business, operations, and financial condition could be adversely affected.

Certain federal and state healthcare laws and regulations pertaining to fraud and abuse and patients rights are and will be applicable to our business. We could be subject to healthcare fraud and abuse and patient privacy regulation by both the federal government and the states in which we conduct our business. The regulations that may affect our ability to operate include:

• the federal healthcare program Anti-Kickback Statute, which prohibits knowingly and willfully offering, soliciting, receiving, or providing any remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind, in exchange for or to induce either the referral of an individual for, or the purchase, order, lease, or recommendation of, any good, facility, item, or service for which payment may be made, in whole or in part, under federal healthcare programs, such as the Medicare and Medicaid programs;

• the federal false claims laws and civil monetary penalty laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, false or fraudulent claims for payment or approval, or knowingly using false statements, to obtain payment from the federal government, and which may apply to entities like us which provide coding and billing advice to customers;

• the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which created new federal criminal statutes that prohibit knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or obtain, by means of false or fraudulent pretenses, representations or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (e.g., public or private) and knowingly and willfully falsifying, concealing or covering up by any trick or device a material fact or making any materially false statements in connection with the delivery of, or payment for, healthcare benefits, items, or services relating to healthcare matters;

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• the federal physician self-referral law, commonly known as the Stark Law, which prohibits a physician from making a referral to an entity for certain designated health services reimbursed by Medicare or Medicaid if the physician or a member of the physician s family has a financial relationship with the entity, and which also prohibits the submission of any claims for reimbursement for designated health services furnished pursuant to a prohibited referral;

• the federal transparency requirements under the PPACA require manufacturers of drugs, devices, biologicals, and medical supplies for which payment is available under Medicare, Medicaid, or the Children s Health Insurance Program (with certain exceptions) to report annually to the U.S. Department of Health and Human Services, or HHS, information related to physician payments and other transfers of value made to physicians (defined to include doctors, dentists, optometrists, podiatrists, and chiropractors) and teaching hospitals, as well as certain ownership and investment interests held by physicians and their immediate family members;

• HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, or HITECH, and their respective implementing regulations, which governs the conduct of certain electronic healthcare transactions and protects the security and privacy of protected health information; and

• state law equivalents of each of the above federal laws, such as anti-kickback, false claims and transparency laws, which may be broader in scope and apply to items or services reimbursed by any third-party payor, including commercial insurers.

The PPACA, among other things, amended the intent standard of the federal Anti-Kickback Statute and criminal healthcare fraud statutes to a stricter standard such that a person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the PPACA codified case law that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal False Claims Act.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil, criminal and/or administrative penalties, damages, fines, disgorgement, possible exclusion from participation in Medicare, Medicaid, and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these or other laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management s attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security, and fraud laws may prove costly.

Risks related to ownership of our common stock

Our stock price may be volatile, and purchasers of our common stock could incur substantial losses.

Our stock price has fluctuated in the past and may be volatile in the future. The stock market in general and the market for securities of specialty pharmaceutical and biotechnology companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may experience losses on their investments in our stock.

In addition, the clinical development stage of our operations may make it difficult for investors to evaluate the success of our business to date and to assess our future viability. The market price for our common stock may be influenced by many factors, including:

- the success of competitive products or technologies;

- results of clinical studies of our product candidates or those of our competitors;

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- introductions and announcements of new products and product candidates by us, our commercialization partners, or our competitors, and the timing of these introductions or announcements;

- actions taken by regulatory agencies with respect to our or our competitors products, product candidates, clinical studies, manufacturing process, or sales and marketing terms;

- variations in our financial results or those of companies that are perceived to be comparable to us;

- the success of our efforts to acquire or in-license additional products or product candidates;

- developments concerning our collaborations, including but not limited to those with our sources of manufacturing and our commercialization partners;

- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, or capital commitments;

- developments or disputes concerning patents or other proprietary rights, including patents, litigation matters, and our ability to obtain patent protection for our current or future products;

- our ability or inability to raise additional capital and the terms on which we raise it;

- the recruitment or departure of key personnel;

- changes in the structure of healthcare reimbursement systems;

- regulatory or legal developments in the United States and other countries, especially changes in laws or regulations applicable to our current or future products;

- market conditions in the pharmaceutical and biotechnology sectors;
- actual or anticipated changes in earnings estimates or changes in stock market analyst recommendations regarding our common stock, other comparable companies or our industry generally;
- trading volume of our common stock;
- sales of our common stock by us or our stockholders;
- general economic, industry, and market conditions; and
- the other risks described in this Risk Factors section.

These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. Additionally, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management s attention and resources, which could materially and adversely affect our business, financial condition, results of operations, and growth prospects.

A significant portion of our total outstanding shares currently are restricted from resale but may be sold into the market in the near future. This could cause the market price of our common stock to drop significantly, even if our business is doing well.*

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could result in a decrease in the market price of our common stock. As of October 30, 2014, we had outstanding 17,125,780 shares of common stock. 7,509,812 of these shares are currently restricted securities as such term is defined in Rule 144 under the Securities Act. Moreover, certain holders of an aggregate of 9,936,991 shares of our common stock have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We also have registered all shares of common stock that we may issue under our equity compensation plans. These shares can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates and the lock up agreements described above.

Our executive officers, directors and principal stockholders have the ability to control or significantly influence all matters submitted to stockholders for approval.

As of October 30, 2014, our executive officers, directors and stockholders who own more than 5% of our outstanding common stock beneficially owned approximately 65.6% of our common stock. These stockholders, acting together, are able to significantly influence all matters requiring stockholder approval, including the election and removal of directors and any merger or other significant corporate transactions. The interests of this group of stockholders may not coincide with the interests of other stockholders. As a result, if these stockholders were to choose to act together, they would be able to control or significantly influence all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these stockholders, if they choose to act together, will control or significantly influence the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire.

We are incurring significant increased costs as a result of operating as a public company, and our management is now required to devote substantial time to new compliance initiatives.

As a public company, we are incurring significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, and rules of the SEC and those of NASDAQ Global Market, or NASDAQ, have imposed various requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls. Our management and other personnel now need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, these rules and regulations make it more difficult and more expensive for us to maintain our director and officer liability insurance. We estimate the additional costs we will incur as a result of being a public company to be approximately $2 million annually.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, beginning with our annual report on Form 10-K for the fiscal year ending December 31, 2014. In addition, we will be required to have our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting beginning with our annual report on Form 10-K following the date on which we are no longer an emerging growth company. Our compliance with Section 404 of the Sarbanes-Oxley Act will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. If we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by NASDAQ, the SEC or other regulatory authorities, which would require additional financial and management resources.

Our ability to successfully comply with Section 404 requires us to be able to prepare timely and accurate financial statements. We expect that we will need to continue to improve existing, and implement new operational and financial systems, procedures, and controls to manage our business effectively. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures, or controls, may cause our operations to suffer and we may be unable to conclude that our internal control over financial reporting is effective and to obtain an unqualified report on internal controls from our auditors as required under Section 404 of the Sarbanes-Oxley Act. This, in turn, could have an adverse impact on trading prices for our common stock, and could adversely affect our ability to access the capital markets.

An active trading market for our common stock may not be maintained.

Our stock is currently traded on NASDAQ, but we can provide no assurance that we will be able to maintain an active trading market on NASDAQ or any other exchange in the future. If an active market for our common stock is not maintained, it may be difficult for our stockholders to sell shares without depressing the market price for the shares or at all.

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If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about us or our business, our stock price and trading volume could decline.

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts may cease to publish research on our company at any time in their discretion. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline. In addition, if one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If our operating results fail to meet the forecast of analysts, our stock price will likely decline.

Provisions in our corporate charter documents and under Delaware law could make an acquisition of us more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our corporate charter and our bylaws may discourage, delay, or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team. Among others, these provisions include that:

- our board of directors is divided into three classes with staggered three-year terms, which may delay or prevent a change of our management or a change in control;

- our board of directors has the right to expand the size of our board of directors and to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;

- our stockholders may not act by written consent or call special stockholders meetings; as a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions other than at annual stockholders meetings or special stockholders meetings called by the board of directors or the chairman of the board and chief executive officer;

- our certificate of incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

- stockholders must provide advance notice and additional disclosures in order to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror s own slate of directors or otherwise attempting to obtain control of our company; and

- our board of directors may issue, without stockholder approval, shares of undesignated preferred stock, and the ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

Because we do not anticipate paying any cash dividends on our common stock in the foreseeable future, capital appreciation, if any, will be our stockholders sole source of gain.

We have never declared or paid cash dividends on our common stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. In addition, the terms of existing or any future debt agreements may preclude us from paying dividends. As a result, capital appreciation, if any, of our common stock will be our stockholders sole source of gain for the foreseeable future.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Equity Securities

From January 1, 2014 through April 9, 2014, we granted to employees options to purchase an aggregate of 1,865,000 shares of common stock under our 2007 Stock Plan, as amended (the 2007 Plan), at an exercise price ranging from $9.00 to $11.23 per share for an aggregate exercise price of approximately $17.7 million.

From January 1, 2014 through April 9, 2014, we issued and sold to employees, consultants and other service providers an aggregate of 71,366 shares of common stock upon the exercise of options under the 2002 and 2007 Plan at exercise prices ranging from $0.53 to $11.23 per share, for an aggregate exercise price of approximately $0.2 million.

From January 1, 2014 through September 30, 2014, we issued 587,148 shares of our common stock upon the cash exercise of warrants to purchase our common stock. We received proceeds of $2.0 million representing the aggregate exercise price of such warrants.

From January 1, 2014 through September 30, 2014, we issued 183,023 shares of our common stock upon the net exercise of warrants to purchase our common stock. We did not receive proceeds from the exercises of these warrants.

The issuance of such common stock underlying the warrants was exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) of the Securities Act.

The offers, sales and issuances of the securities described in this Item 2 were deemed to be exempt from registration under the Securities Act under Rule 701 promulgated under the Securities Act as offers and sale of securities pursuant to certain compensatory benefit plans and contracts relating to compensation in compliance with Rule 701.

Use of Proceeds

On April 15, 2014, we issued and sold 3,000,000 shares of our common stock in the IPO at a public offering price of $16.00 per share, for net proceeds of approximately $41.4 million, after deducting underwriting discounts and commissions of approximately $3.4 million and expenses of approximately $3.2 million. On May 6, 2014, we issued and sold 81,371 shares of common stock pursuant to the underwriters partial exercise of their option to purchase additional shares, for net proceeds of approximately $1.2 million, after deducting underwriting discounts and commissions of approximately $91,000. All of the shares issued and sold in the IPO were registered under the Securities Act pursuant to a Registration Statement on Form S-1 (File No. 333-194342), which was declared effective by the SEC on April 9, 2014. Credit Suisse and Piper Jaffray acted as joint book-running managers for the IPO. William Blair and Needham & Company acted as co-managers. The offering commenced on April 9, 2014 and did not terminate until the sale of all of the shares offered.

None of the expenses associated with the IPO were paid to directors, officers, persons owning 10% or more of any class of equity securities, or to their associates, or to our affiliates.

There has been no material change in the planned use of proceeds from our IPO as described in our prospectus effective April 9, 2014, filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which are incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Adamas Pharmaceuticals, Inc. (Registrant)
Date: November 4, 2014	/s/ Gregory Went, Ph.D. Gregory Went, Ph.D. Chief Executive Officer (Principal Executive Officer)
Date: November 4, 2014	/s/ William J. Dawson William J. Dawson Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporation By Reference Form	SEC File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Adamas Pharmaceuticals, Inc.	8-K	001-36399	3.1	4/15/2014
3.2	Amended and Restated Bylaws of Adamas Pharmaceuticals, Inc.	8-K	001-36399	3.2	4/15/2014
4.1	Reference is made to Exhibits 3.1 through 3.2.				
4.2	Form of Common Stock Certificate of Adamas Pharmaceuticals, Inc.	S-1	333-194342	4.1	3/26/2014
4.3	Fourth Amended and Restated Investor Rights Agreement, dated as of September 30, 2011, by and among the registrant and certain of its stockholders.	S-1	333-194342	10.5	3/5/2014
10.8	Offer Letter by and between Adamas Pharmaceuticals, Inc. and William J. Dawson, dated as of August 12, 2014.	8-K	001-36399	10.8	8/13/2014
10.9	Separation Agreement by and between Adamas Pharmaceuticals, Inc. and Anthony Rimac, dated as of August 12, 2014.	8-K	001-36399	10.9	8/13/2014
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(1)				
101.INS	XBRL Instance Document(2)				
101.SCH	XBRL Taxonomy Extension Schema Document(2)				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document(2)				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document(2)				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document(2)				
101.PRE					

XBRL Taxonomy Extension Presentation Linkbase Document (2)

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(1) This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

(2) Pursuant to applicable securities laws and regulations, the Registrant is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Registrant has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements.