MFS MULTIMARKET INCOME TRUST
Form N-Q
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF

REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-04975

MFS MULTIMARKET INCOME TRUST

(Exact name of registrant as specified in charter)

111 Huntington Avenue, Boston, Massachusetts 02199

(Address of principal executive offices) (Zip code)

Kristin V. Collins

Massachusetts Financial Services Company

111 Huntington Avenue

Boston, Massachusetts 02199

(Name and address of agents for service)

Registrant s telephone number, including area code: (617) 954-5000

Date of fiscal year end: October 31

Date of reporting period: January 31, 2016

ITEM 1. SCHEDULE OF INVESTMENTS.

QUARTERLY REPORT

January 31, 2016

MFS® MULTIMARKET INCOME TRUST

PORTFOLIO OF INVESTMENTS

1/31/16 (unaudited)

The Portfolio of Investments is a complete list of all securities owned by your fund. It is categorized by broad-based asset classes.

Issuer		Shares/Par		Value ($)
Bonds - 113.6%				
Aerospace - 1.0%				
Aerojet Rocketdyne Holdings, Inc., 7.125%, 3/15/21	$	1,405,000	$	1,426,075
Bombardier, Inc., 6.125%, 1/15/23 (n)		885,000		606,225
Bombardier, Inc., 7.5%, 3/15/25 (n)		515,000		354,062
CPI International, Inc., 8.75%, 2/15/18		1,115,000		1,087,125
Lockheed Martin Corp., 3.55%, 1/15/26		406,000		416,528
TransDigm, Inc., 6%, 7/15/22		245,000		240,100
TransDigm, Inc., 6.5%, 7/15/24		700,000		684,250
			$	4,814,365
Airlines - 0.1%				
Ryanair Ltd., 1.125%, 3/10/23	EUR	325,000	$	339,221
Apparel Manufacturers - 0.3%				
Hanesbrands, Inc., 6.375%, 12/15/20	$	845,000	$	876,789
PVH Corp., 4.5%, 12/15/22		720,000		698,400
			$	1,575,189
Asset-Backed & Securitized - 4.7%				
Banc of America Commercial Mortgage, Inc., FRN, 5.932%, 2/10/51	$	1,352,926	$	1,409,770
Bayview Financial Revolving Mortgage Loan Trust, FRN, 1.832%, 12/28/40 (z)		2,072,123		1,499,460
Chesapeake Funding LLC, A , FRN, 0.872%, 5/07/24 (z)		890,046		889,720
Citigroup Commercial Mortgage Trust, FRN, 5.898%, 12/10/49		390,311		39,007
Citigroup/Deutsche Bank Commercial Mortgage Trust, FRN, 5.366%, 12/11/49		1,400,000		1,426,072
Credit Suisse Commercial Mortgage Trust, AM , FRN, 5.888%, 6/15/39		1,781,000		1,817,468
Crest Ltd., CDO, 7%, 1/28/40 (a)(d)(p)		2,980,723		256,700
Dryden Senior Loan Fund, 2013-26A, A , CLO, FRN, 1.722%, 7/15/25 (n)		1,500,000		1,465,680
Dryden Senior Loan Fund, 2014-31A, C , CLO, FRN, 3.47%, 4/18/26 (z)		1,750,000		1,638,438
Enterprise Fleet Financing LLC, 2014-1, A2 , 0.87%, 9/20/19 (n)		1,222,262		1,218,711
Falcon Franchise Loan LLC, FRN, 44.017%, 1/05/25 (i)(z)		118,708		28,685
First Union National Bank Commercial Mortgage Trust, FRN, 1.734%, 1/12/43 (i)(z)		273,691		792
First Union-Lehman Brothers Bank of America, FRN, 1.023%, 11/18/35 (i)		3,320,165		56,704
Greenwich Capital Commercial Funding Corp., 5.475%, 3/10/39		1,745,342		1,782,086
JPMorgan Chase Commercial Mortgage Securities Corp., 5.552%, 5/12/45		1,147,782		1,159,379
JPMorgan Chase Commercial Mortgage Securities Corp., A4 , FRN, 5.959%, 6/15/49		2,000,000		2,041,692
JPMorgan Chase Commercial Mortgage Securities Corp., FRN, 6.105%, 4/15/45		976,089		978,343
JPMorgan Chase Commercial Mortgage Trust, 2007-LD11, AM , FRN, 5.959%, 6/15/49		2,243,253		2,286,574
Lehman Brothers Commercial Conduit Mortgage Trust, FRN, 1.191%, 2/18/30 (i)		395,124		3,827
Morgan Stanley Capital I Trust, AM , FRN, 5.865%, 4/15/49		1,674,000		1,699,863
Morgan Stanley Capital I, Inc., FRN, 1.404%, 4/28/39 (i)(z)		2,854,458		13,815
Wachovia Bank Commercial Mortgage Trust, A4 , FRN, 6.149%, 2/15/51		939,910		973,156
			$	22,685,942
Automotive - 2.8%				
Accuride Corp., 9.5%, 8/01/18	$	1,365,000	$	1,064,700
American Honda Finance Corp., 1.375%, 11/10/22	EUR	525,000		583,975
Delphi Automotive PLC, 1.5%, 3/10/25	EUR	250,000		250,179
Delphi Automotive PLC, 4.25%, 1/15/26	$	480,000		480,355
Ford Motor Credit Co. LLC, 1.7%, 5/09/16		1,000,000		1,001,486
General Motors Financial Co., Inc., 3.45%, 4/10/22		486,000		466,759
Goodyear Tire & Rubber Co., 6.5%, 3/01/21		1,070,000		1,123,500
Goodyear Tire & Rubber Co., 7%, 5/15/22		420,000		449,190
Grupo Antolin Dutch B.V., 5.125%, 6/30/22 (n)	EUR	120,000		133,246

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Automotive - continued		
Harley-Davidson Financial Services, Inc., 2.7%, 3/15/17 (n)	$ 600,000	$ 608,752
Hyundai Capital America, 4%, 6/08/17 (n)	256,000	263,074
Lear Corp., 4.75%, 1/15/23	730,000	737,300
Lear Corp., 5.25%, 1/15/25	990,000	1,028,362
Schaeffler Finance B.V., 6.875%, 8/15/18 (n)(p)	655,000	673,012
Schaeffler Finance B.V., 3.25%, 5/15/19	EUR 470,000	506,605
Schaeffler Finance B.V., 4.75%, 5/15/21 (n)	$ 565,000	565,000
Schaeffler Holding Finance B.V., 6.25%, 11/15/19 (n)(p)	305,000	317,962
Toyota Motor Credit Corp., 1%, 3/09/21	EUR 320,000	353,381
Volkswagen Group of America Finance LLC, 2.4%, 5/22/20	$ 530,000	504,734
Volkswagen International Finance N.V., 3.875% to 9/04/18, FRN to 9/29/49	EUR 400,000	416,984
Volkswagen International Finance N.V., FRN, 2.5%, 12/29/49	EUR 230,000	206,802
ZF North America Capital, Inc., 4.5%, 4/29/22 (n)	$ 1,335,000	1,286,606
ZF North America Capital, Inc., 4.75%, 4/29/25 (n)	310,000	290,625
		$ 13,312,589
Biotechnology - 0.1%		
Life Technologies Corp., 6%, 3/01/20	$ 363,000	$ 407,249
Broadcasting - 2.2%		
Activision Blizzard, Inc., 6.125%, 9/15/23 (n)	$ 1,485,000	$ 1,588,950
AMC Networks, Inc., 7.75%, 7/15/21	884,000	937,040
Clear Channel Worldwide Holdings, Inc., A , 6.5%, 11/15/22	245,000	218,050
Clear Channel Worldwide Holdings, Inc., B , 6.5%, 11/15/22	945,000	875,306
Discovery Communications, Inc., 1.9%, 3/19/27	EUR 700,000	645,562
Grupo Televisa S.A.B., 6.125%, 1/31/46	$ 284,000	280,774
iHeartMedia, Inc., 9%, 3/01/21	1,301,000	845,650
Liberty Media Corp., 8.5%, 7/15/29	1,280,000	1,276,800
Liberty Media Corp., 8.25%, 2/01/30	50,000	49,500
Netflix, Inc., 5.375%, 2/01/21	945,000	1,015,875
Netflix, Inc., 5.875%, 2/15/25 (n)	370,000	381,562
Nexstar Broadcasting, Inc., 6.875%, 11/15/20	900,000	902,250
Omnicom Group, Inc., 3.65%, 11/01/24	154,000	153,749
ProSiebenSat.1 Media AG, 2.625%, 4/15/21	EUR 485,000	546,129
Tribune Media Co., 5.875%, 7/15/22 (n)	$ 770,000	768,075
		$ 10,485,272
Brokerage & Asset Managers - 0.2%		
Intercontinental Exchange, Inc., 2.75%, 12/01/20	$ 274,000	$ 278,362
Intercontinental Exchange, Inc., 3.75%, 12/01/25	450,000	461,279
		$ 739,641
Building - 2.4%		
Allegion PLC, 5.875%, 9/15/23	$ 255,000	$ 263,287
Allegion U.S. Holding Co., Inc., 5.75%, 10/01/21	1,535,000	1,596,400
Beacon Roofing Supply, Inc., 6.375%, 10/01/23 (n)	780,000	804,375
Building Materials Corp. of America, 5.375%, 11/15/24 (n)	890,000	876,650
Building Materials Corp. of America, 6%, 10/15/25 (n)	495,000	504,900
CEMEX S.A.B. de C.V., 6.5%, 12/10/19 (n)	405,000	382,219
CEMEX S.A.B. de C.V., 7.25%, 1/15/21 (n)	306,000	291,006
Cimpor Financial Operations B.V., 5.75%, 7/17/24 (n)	284,000	174,660
CRH Finance Ltd., 3.125%, 4/03/23	EUR 300,000	362,435
Elementia S.A. de C.V., 5.5%, 1/15/25 (n)	$ 210,000	194,271
Gibraltar Industries, Inc., 6.25%, 2/01/21	1,150,000	1,152,875
HD Supply, Inc., 7.5%, 7/15/20	990,000	1,029,600
Headwaters, Inc., 7.25%, 1/15/19	670,000	683,400

Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Building - continued		
Masco Corp., 4.45%, 4/01/25	$ 170,000	$ 170,000
Mohawk Industries, Inc., 2%, 1/14/22	EUR 525,000	573,303
Mohawk Industries, Inc., 3.85%, 2/01/23	$ 653,000	671,449
Owens Corning, Inc., 4.2%, 12/15/22	184,000	186,513
PriSo Acquisition Corp., 9%, 5/15/23 (n)	765,000	711,450
Summit Materials LLC/Summit Materials Finance Co., 6.125%, 7/15/23	865,000	834,725
Union Andina de Cementos S.A.A., 5.875%, 10/30/21 (n)	270,000	259,740
		$ 11,723,258
Business Services - 1.8%		
Equinix, Inc., 4.875%, 4/01/20	$ 855,000	$ 887,062
Equinix, Inc., 5.375%, 1/01/22	290,000	301,600
Equinix, Inc., 5.375%, 4/01/23	1,065,000	1,102,275
Fidelity National Information Services, Inc., 3.875%, 6/05/24	664,000	648,001
Fidelity National Information Services, Inc., 5%, 10/15/25	208,000	217,074
Iron Mountain, Inc., REIT, 6%, 10/01/20 (n)	465,000	495,225
Iron Mountain, Inc., REIT, 6%, 8/15/23	1,330,000	1,383,200
MSCI, Inc., 5.75%, 8/15/25 (n)	280,000	296,100
NeuStar, Inc., 4.5%, 1/15/23	1,050,000	861,000
Tencent Holdings Ltd., 3.375%, 3/05/18 (n)	664,000	679,577
Tencent Holdings Ltd., 3.375%, 5/02/19 (n)	965,000	986,940
Tencent Holdings Ltd., 3.8%, 2/11/25 (n)	734,000	731,409
		$ 8,589,463
Cable TV - 5.0%		
Altice Financing S.A., 6.5%, 1/15/22 (n)	$ 1,477,000	$ 1,469,615
Altice Financing S.A., 6.625%, 2/15/23 (n)	1,525,000	1,498,312
Altice Finco S.A., 8.125%, 1/15/24 (n)	719,000	690,240
CCO Holdings LLC, 5.25%, 9/30/22	500,000	506,250
CCO Holdings LLC/CCO Holdings Capital Corp., 7.375%, 6/01/20	390,000	405,600
CCO Holdings LLC/CCO Holdings Capital Corp., 6.5%, 4/30/21	1,015,000	1,058,767
CCO Holdings LLC/CCO Holdings Capital Corp., 5.125%, 5/01/23 (n)	730,000	730,000
CCO Holdings LLC/CCO Holdings Capital Corp., 5.75%, 1/15/24	1,060,000	1,090,475
CCO Holdings LLC/CCO Holdings Capital Corp., 5.375%, 5/01/25 (n)	305,000	301,950
CCO Safari II LLC, 6.384%, 10/23/35 (n)	371,000	372,760
Cequel Communications Holdings, 6.375%, 9/15/20 (n)	970,000	937,262
Comcast Corp., 4.65%, 7/15/42	700,000	714,238
DISH DBS Corp., 6.75%, 6/01/21	890,000	907,800
DISH DBS Corp., 5%, 3/15/23	1,010,000	878,700
DISH DBS Corp., 5.875%, 11/15/24	360,000	320,850
Intelsat Jackson Holdings S.A., 7.25%, 4/01/19	510,000	462,825
Intelsat Jackson Holdings S.A., 6.625%, 12/15/22	1,710,000	1,107,225
Intelsat Jackson Holdings S.A., 5.5%, 8/01/23	1,225,000	976,937
Intelsat Luxembourg S.A., 8.125%, 6/01/23	1,020,000	420,750
LGE Holdco VI B.V., 7.125%, 5/15/24 (n)	EUR 680,000	791,966
Lynx I Corp., 5.375%, 4/15/21 (n)	$ 468,000	478,530
Lynx II Corp., 6.375%, 4/15/23 (n)	675,000	691,875
Neptune Finco Corp., 10.875%, 10/15/25 (n)	605,000	639,787
Shaw Communications, Inc., 5.65%, 10/01/19	CAD 417,000	330,903
SIRIUS XM Radio, Inc., 4.25%, 5/15/20 (n)	$ 290,000	294,350
SIRIUS XM Radio, Inc., 5.875%, 10/01/20 (n)	125,000	130,312
SIRIUS XM Radio, Inc., 5.75%, 8/01/21 (n)	195,000	202,351
SIRIUS XM Radio, Inc., 4.625%, 5/15/23 (n)	540,000	529,200
SIRIUS XM Radio, Inc., 6%, 7/15/24 (n)	560,000	586,600
SIRIUS XM Radio, Inc., 5.375%, 4/15/25 (n)	730,000	733,650

Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Cable TV - continued		
Sky PLC, 2.5%, 9/15/26	EUR 400,000	$ 447,013
Time Warner Cable, Inc., 5.75%, 6/02/31	GBP 250,000	353,827
Time Warner Cable, Inc., 4.5%, 9/15/42	$ 210,000	167,114
Unitymedia Hessen, 5.5%, 1/15/23 (n)	950,000	993,301
Unitymedia KabelBW GmbH, 6.125%, 1/15/25 (n)	700,000	710,640
Virgin Media Secured Finance PLC, 5.25%, 1/15/26 (n)	710,000	702,900
VTR Finance B.V., 6.875%, 1/15/24 (n)	207,000	193,027
Ziggo Bond Finance B.V., 5.875%, 1/15/25 (n)	450,000	412,875
		$ 24,240,777
Chemicals - 2.3%		
CF Industries, Inc., 3.45%, 6/01/23	$ 577,000	$ 526,053
Consolidated Energy Finance S.A., 6.75%, 10/15/19 (n)	384,000	337,920
Flash Dutch 2 B.V./U.S. Coatings Acquisition, 7.375%, 5/01/21 (n)	810,000	849,990
GCP Applied Technologies Co., 9.5%, 2/01/23 (n)	440,000	465,300
Hexion U.S. Finance Corp., 6.625%, 4/15/20	395,000	306,125
Hexion U.S. Finance Corp./Hexion Nova Scotia Finance, 8.875%, 2/01/18	565,000	384,200
Huntsman International LLC, 5.125%, 4/15/21	EUR 335,000	330,244
INEOS Group Holdings S.A., 6.125%, 8/15/18 (n)	$ 920,000	918,850
Israel Chemicals Ltd., 4.5%, 12/02/24 (n)	2,540,000	2,485,893
LyondellBasell Industries N.V., 5.75%, 4/15/24	487,000	528,059
LyondellBasell Industries N.V., 4.625%, 2/26/55	386,000	302,876
Momentive Performance Materials, Inc., 3.88%, 10/24/21	380,000	255,550
Solvay Finance S.A., FRN, 4.199%, 5/29/49	EUR 450,000	461,576
SPCM S.A., 2.875%, 6/15/23 (n)	EUR 102,000	103,785
The Chemours Co., 6.625%, 5/15/23 (n)	$ 775,000	474,687
Tronox Finance LLC, 6.375%, 8/15/20	1,500,000	926,250
Tronox Finance LLC, 7.5%, 3/15/22 (n)	805,000	485,012
W.R. Grace & Co., 5.125%, 10/01/21 (n)	1,035,000	1,040,175
		$ 11,182,545
Computer Software - 0.4%		
Oracle Corp., 3.4%, 7/08/24	$ 483,000	$ 494,872
Syniverse Holdings, Inc., 9.125%, 1/15/19	436,000	165,680
VeriSign, Inc., 4.625%, 5/01/23	1,165,000	1,141,700
		$ 1,802,252
Computer Software - Systems - 0.6%		
Apple, Inc., 3.05%, 7/31/29	GBP 450,000	$ 629,554
CDW LLC/CDW Finance Corp., 6%, 8/15/22	$ 485,000	509,856
CDW LLC/CDW Finance Corp., 5.5%, 12/01/24	425,000	442,263
Sabre GLBL, Inc., 5.375%, 4/15/23 (n)	1,115,000	1,120,575
		$ 2,702,248
Conglomerates - 1.9%		
Accudyne Industries Borrower S.C.A., 7.75%, 12/15/20 (n)	$ 690,000	$ 472,650
Amsted Industries Co., 5%, 3/15/22 (n)	1,510,000	1,494,900
BC Mountain LLC, 7%, 2/01/21 (n)	1,170,000	848,250
DH Europe Finance S.A., 1%, 7/08/19	EUR 420,000	463,151
EnerSys, 5%, 4/30/23 (n)	$ 1,295,000	1,275,575
Enpro Industries, Inc., 5.875%, 9/15/22	1,315,000	1,278,837
Entegris, Inc., 6%, 4/01/22 (n)	1,275,000	1,294,125
General Electric Capital Corp., 6.375% to 11/15/17, FRN to 11/15/67	300,000	318,000
General Electric Co., 1.25%, 5/26/23	EUR 175,000	193,636
Renaissance Acquisition, 6.875%, 8/15/21 (n)	$ 1,300,000	955,500

Portfolio of Investments (unaudited) continued

Issuer		Shares/Par		Value ($)
Bonds - continued				
Conglomerates - continued				
Smiths Group PLC, 1.25%, 4/28/23	EUR	450,000	$	467,738
			$	9,062,362
Construction - 0.1%				
Empresas ICA S.A.B. de C.V., 8.9%, 2/04/21 (d)	$	590,000	$	109,150
Empresas ICA S.A.B. de C.V., 8.875%, 5/29/24 (a)(d)(n)		914,000		169,090
			$	278,240
Consumer Products - 0.9%				
Alphabet Holding Co., Inc., 7.75%, 11/01/17	$	105,000	$	102,637
Elizabeth Arden, Inc., 7.375%, 3/15/21		380,000		252,700
Newell Rubbermaid, Inc., 4%, 12/01/24		450,000		425,089
Prestige Brands, Inc., 8.125%, 2/01/20		373,000		386,987
Prestige Brands, Inc., 5.375%, 12/15/21 (n)		845,000		823,875
Reckitt Benckiser Treasury Services PLC, 3.625%, 9/21/23 (n)		500,000		517,449
Spectrum Brands, Inc., 6.375%, 11/15/20		965,000		1,018,075
Spectrum Brands, Inc., 6.125%, 12/15/24 (n)		165,000		171,600
Spectrum Brands, Inc., 5.75%, 7/15/25 (n)		430,000		440,750
			$	4,139,162
Consumer Services - 2.0%				
ADT Corp., 6.25%, 10/15/21	$	1,525,000	$	1,582,187
ADT Corp., 4.125%, 6/15/23		370,000		340,400
CEB, Inc., 5.625%, 6/15/23 (n)		840,000		840,000
Garda World Security Corp., 7.25%, 11/15/21 (n)		755,000		588,900
Garda World Security Corp., 7.25%, 11/15/21 (n)		365,000		284,700
Grupo Posadas S.A.B. de C.V., 7.875%, 6/30/22 (n)		700,000		661,500
Interval Acquisition Corp., 5.625%, 4/15/23 (n)		1,635,000		1,626,825
Monitronics International, Inc., 9.125%, 4/01/20		1,495,000		1,199,737
Priceline Group, Inc., 2.15%, 11/25/22	EUR	170,000		183,949
Priceline Group, Inc., 3.65%, 3/15/25	$	314,000		311,171
Priceline Group, Inc., 1.8%, 3/03/27	EUR	300,000		280,402
Service Corp. International, 5.375%, 5/15/24	$	1,134,000		1,199,205
Visa, Inc., 4.15%, 12/14/35		599,000		619,005
			$	9,717,981
Containers - 3.1%				
Ardagh Packaging Finance PLC, 9.125%, 10/15/20 (n)	$	2,200,000	$	2,213,750
Ball Corp., 5%, 3/15/22		1,303,000		1,348,605
Ball Corp., 5.25%, 7/01/25		330,000		339,075
Berry Plastics Group, Inc., 5.5%, 5/15/22		1,155,000		1,152,112
Berry Plastics Group, Inc., 6%, 10/15/22 (n)		350,000		357,000
Crown American LLC, 4.5%, 1/15/23		1,322,000		1,308,780
Crown European Holdings S.A., 3.375%, 5/15/25 (z)	EUR	650,000		650,454
Multi-Color Corp., 6.125%, 12/01/22 (n)	$	1,240,000		1,230,700
Plastipak Holdings, Inc., 6.5%, 10/01/21 (n)		858,000		821,535
Reynolds Group, 9.875%, 8/15/19		151,000		147,602
Reynolds Group, 5.75%, 10/15/20		600,000		600,750
Reynolds Group, 8.25%, 2/15/21		1,560,000		1,454,700
Sealed Air Corp., 4.875%, 12/01/22 (n)		1,110,000		1,117,626
Sealed Air Corp., 4.5%, 9/15/23 (n)	EUR	450,000		502,110
Sealed Air Corp., 5.125%, 12/01/24 (n)	$	370,000		370,000
Signode Industrial Group, 6.375%, 5/01/22 (n)		1,465,000		1,215,950
			$	14,830,749

Portfolio of Investments (unaudited) continued

Issuer		Shares/Par		Value ($)
Bonds - continued				
Electrical Equipment - 0.0%				
Avaya, Inc., 10.5%, 3/01/21 (n)	$	405,000	$	101,250
Electronics - 1.3%				
Advanced Micro Devices, Inc., 6.75%, 3/01/19	$	740,000	$	505,050
Advanced Micro Devices, Inc., 7%, 7/01/24		460,000		285,200
Micron Technology, Inc., 5.875%, 2/15/22		980,000		872,200
Micron Technology, Inc., 5.5%, 2/01/25		615,000		485,850
NXP B.V., 5.75%, 2/15/21 (n)		480,000		496,800
NXP B.V., 5.75%, 3/15/23 (n)		1,070,000		1,092,063
Sensata Technologies B.V., 5.625%, 11/01/24 (n)		645,000		657,900
Sensata Technologies B.V., 5%, 10/01/25 (n)		445,000		428,312
Tyco Electronics Group S.A., 6.55%, 10/01/17		700,000		754,583
Tyco Electronics Group S.A., 1.1%, 3/01/23	EUR	550,000		588,403
			$	6,166,361
Emerging Market Quasi-Sovereign - 4.9%				
Autoridad del Canal de Panama, 4.95%, 7/29/35 (n)	$	201,000	$	207,030
Banco de Reservas de la Republica Dominicana, 7%, 2/01/23 (n)		946,000		905,327
CNPC (HK) Overseas Capital Ltd., 4.5%, 4/28/21 (n)		1,242,000		1,327,022
CNPC General Capital Ltd., 3.4%, 4/16/23 (n)		391,000		383,515
Comision Federal de Electricidad, 4.875%, 1/15/24 (n)		517,000		514,415
Comision Federal de Electricidad, 4.875%, 1/15/24		465,000		462,675
Comision Federal de Electricidad, 5.75%, 2/14/42 (n)		915,000		837,225
Comision Federal de Electricidad, 6.125%, 6/16/45 (n)		900,000		848,250
Corporacion Financiera de Desarrollo S.A., 4.75%, 7/15/25 (n)		268,000		260,871
Empresa Nacional del Petroleo, 4.375%, 10/30/24 (n)		296,000		282,392
Gaz Capital S.A., 4.95%, 2/06/28 (n)		492,000		420,340
Kazakhstan Temir Zholy Co., 6.95%, 7/10/42 (n)		316,000		265,819
Majapahit Holding B.V., 7.25%, 6/28/17 (n)		1,029,000		

In February 2007, the FASB issued Statement of Financial Account Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including Amendment of FASB Statement No. 115*. The new standard permits, but does not require, entities to measure certain financial instruments and other assets and liabilities at fair value on an instrument-by-instrument basis. Unrealized gains and loses on items for which the fair value option has been elected should be recognized in earnings at each

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subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not believe SFAS 159 will have a material impact on its results from operations or financial position.

Refer to Footnote 4 with respect to the adoption of FIN 48.

Segment Information

The Company is managed and operated as one business. The entire business is managed by a single management team that reports to the chief executive officer. The Company does not operate separate lines of business with respect to any of its product candidates. Accordingly, the Company does not prepare discrete financial information with respect to separate product candidates or by location and does not have separately reportable segments as defined by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information.

(3) Share Based Compensation

The Company accounts for share-based compensation, including options and nonvested shares, according to the provisions of SFAS No. 123R, Share Based Payment . During the three-month periods ended March 31, 2007 and 2006, the Company recognized share-based compensation expense of $2.2 million and $1.0 million respectively. Activity in options and restricted stock during the three-month period ended March 31, 2007 and related balances outstanding as of that date are reflected below. The weighted average fair value per share of options granted to employees for the three-month periods ended March 31, 2007 and 2006 amounted to approximately $13.00 and $3.87 respectively.

A summary of share-based compensation activity for the three-month period ended March 31, 2007 is presented below:

Stock Option Activity

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value
Balance at January 1, 2007	2,534,663	$ 6.23		
Granted	882,283	19.19		
Forfeited	(2,500)	18.15		
Exercised	(38,409)	4.23		
Balance at March 31, 2007	3,376,037	$ 9.63	8.33	$ 34,129,706
Vested and expected to vest at March 31, 2007	3,280,440	$ 9.50	8.29	$ 33,554,265
Vested and exercisable at March 31, 2007	1,341,760	$ 4.49	6.93	$ 20,044,993

Restricted Stock Activity

Restricted Stock	Number of Shares
Nonvested at January 1, 2007	413,477
Granted	
Vested	(29,653)
Forfeited	
Nonvested at March 31, 2007	383,824

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As of March 31, 2007, there was $18.5 million of total unrecognized compensation costs related to unvested options and restricted stock awards that the Company expects to recognize over a weighted average period of approximately 2.7 years.

(4) Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. In addition, in May 2007, the FASB issued FASB Staff Position FIN 48-1 which provided guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The Interpretation and Staff Position establishes criteria for recognizing and measuring the financial statement tax effects of positions taken on a company s tax returns. A two-step process is prescribed whereby the threshold for recognition is a more likely-than-not test that the tax position will be sustained upon examination and the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company adopted FIN 48 as of January 1, 2007. The adoption of this Interpretation had no impact on the Company s results of operations or financial position. The Company has no reserves for uncertain tax positions.

The Company had available net operating loss carry-forwards (NOL) of approximately $153.9 million and $144.7 million as of March 31, 2007 and December 31, 2006 respectively, for federal and state income tax purposes, which are available to offset future federal and state taxable income, if any, and expire between 2010 and 2026. The Company also has research and development tax credit carryforwards of approximately $1.3 million as of March 31, 2007 and December 31, 2006, for federal income tax reporting purposes that are available to reduce federal income taxes, if any, and expire in future years beginning in 2018.

At March 31, 2007 and December 31, 2006, the Company had a deferred tax asset of $97.9 million and $94.2 million, respectively, offset by a full valuation allowance. Since inception, the Company has incurred substantial losses and expects to incur substantial losses in future periods. The Tax Reform Act of 1986 (the Act) provides for a limitation of the annual use of NOL and research and development tax credit carryforwards (following certain ownership changes, as defined by the Act) that could significantly limit the Company s ability to utilize these carryforwards. The Company has experienced various ownership changes, as a result of past financings and its initial public offering in February 2006 and private placement in October 2006. Accordingly, the Company s ability to utilize the aforementioned carryforwards may be limited. Additionally, because U.S. tax laws limit the time during which these carryforwards may be applied against future taxes, the Company may not be able to take full advantage of these attributes for federal income tax purposes. Because of the above mentioned factors, the Company has not recognized its net deferred tax assets as of and for all periods presented. Accordingly, the Company has provided a full valuation allowance against its net deferred tax assets and no tax benefit has been recognized relative to its pretax losses.

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

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.

Background

Since we commenced operations in 1995, we have devoted substantially all of our resources to the identification, development and commercialization of novel therapies that improve neurological function in people with MS, SCI and other disorders of the CNS. Our marketed drug, Zanaflex Capsules, is FDA-approved for the management of spasticity. We announced positive results from a Phase 3 clinical trial of our lead product candidate, Fampridine-SR, for the improvement of walking ability in people with MS in September 2006, and we plan to initiate an additional Phase 3 clinical trial of Fampridine-SR in people with MS in the second quarter of 2007. Our preclinical programs also target MS and SCI, as well as other CNS disorders, including stroke and traumatic brain injury.

Our marketing efforts are focused on Zanaflex Capsules, which we launched in April 2005. Zanaflex tablets lost compound patent protection in 2002 and both Zanaflex Capsules and Zanaflex tablets compete with 12 generic tizanidine products. Although we currently distribute Zanaflex tablets, we do not, and do not intend to, actively promote Zanaflex tablets. As a result, prescriptions for Zanaflex tablets have declined and we expect that they will continue to decline. Our goal is to convert as many sales of Zanaflex tablets and generic tizanidine tablets to sales of Zanaflex Capsules as possible. We believe that sales of Zanaflex Capsules will constitute a significant portion of our total revenue for the foreseeable future.

We have established our own specialty sales force in the United States, which consisted of 65 sales professionals as of March 31, 2007. This sales force has targeted neurologists and other prescribers who specialize in treating people with conditions that involve spasticity. Members of this sales force also call on managed care organizations, pharmacists and distribution customers. In addition, we retain TMS Professional Markets Group, LLC to provide a small, dedicated sales force of pharmaceutical telesales professionals who contact primary care, specialty physicians and pharmacists.

Results of Operations

Three-Month Period Ended March 31, 2007 Compared to March 31, 2006

Gross Sales

We recognize product sales using a deferred revenue recognition model meaning that shipments to wholesalers are recorded as deferred revenue and only recognized as revenue when end-user prescriptions of the product are reported. We recognized revenue from the sale of Zanaflex Capsules and Zanaflex tablets of $8.8 million for the three-month period ended March 31, 2007, as compared to $3.9 million for the three-month

period ended March 31, 2006. The increase was due to an increase in prescriptions written for our products that we believe is the result of our increased sales force.

Discounts and Allowances

We recorded discounts and allowances of $494,000 for the three-month period ended March 31, 2007 as compared to $196,000 for the three-month period ended March 31, 2006. Discounts and allowances are recorded when Zanaflex Capsules and Zanaflex tablets are shipped to wholesalers. Discounts and allowances for the three-month period ended March 31, 2007 consisted of $190,000 in allowances for chargebacks and rebates, $168,000 in cash discounts and $136,000 for fees for services to wholesalers. Discounts and allowances for the three-month period ended March 31, 2006, consisted of $105,000 in cash discounts and allowances of $91,000 for chargebacks and rebates.

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Grant Revenue

Grant revenue for the three-month period ended March 31, 2007 was $6,000 compared to $122,000 for the three-month period ended March 31, 2006. Grant revenue is recognized when the related research expenses are incurred and our performance obligations under the terms of the respective contract are satisfied.

Cost of Sales

We recorded cost of sales of $1.6 million for the three-month period ended March 31, 2007 as compared to $1.0 million for the three-month period ended March 31, 2006. The increase was primarily due to the increase in gross sales. Cost of sales for the three-month period ended March 31, 2007 consisted of $750,000 in inventory costs related to recognized revenues, $491,000 in royalty fees, based on net product shipments, $228,000 in amortization of intangible assets, an amount unrelated to either the volume of shipments or the amount of revenue recognized, and $85,000 in period costs related to freight, destruction and stability testing. Cost of sales for the three-month period ended March 31, 2006 consisted of $420,000 in inventory costs related to recognized revenues, $345,000 in royalty fees, based on net product shipments, $185,000 in amortization of intangible assets, an amount unrelated to either the volume of shipments or the amount of revenue recognized, and $91,000 in period costs related to freight and stability testing. Payments to and interest expense related to our Paul Capital Healthcare (formerly Paul Royalty Fund) transaction discussed below in the section titled Liquidity and Capital Resources does not impact our cost of sales.

Research and Development

Research and development expenses for the three-month period ended March 31, 2007, were $3.2 million as compared to $3.3 million for the three-month period ended March 31, 2006, a decrease of approximately $33,000, or 1%. The MS clinical development program expense decreased $672,000 or 33% to $1.4 million for the three-month period ended March 31, 2007 primarily due to the completion of our initial Phase 3 clinical trial in September 2006.

Operating expenses for clinical development, preclinical research and development and regulatory was $1.7 million for the three-month period ended March 31, 2007, compared to $1.0 million for the three-month period ended March 31, 2006, an increase of $650,000, or 65%. This increase is primarily attributable to an increase in salaries and benefits of $145,000 and regulatory operating expenses of $317,000.

Sales and Marketing

Sales and marketing expenses for the three-month period ended March 31, 2007, were $7.0 million compared to $4.6 million for the three-month period ended March 31, 2006, an increase of approximately $2.4 million or 52%. This increase was primarily attributable to an increase in salaries and benefits of $1.8 million and other selling related expenses of $541,000 resulting from the expansion of our Zanaflex Capsules specialist sales force.

General and Administrative

General and administrative expenses for the three-month period ended March 31, 2007, were $4.4 million compared to $2.3 million for the three-month period ended March 31, 2006, an increase of approximately $2.1 million, or 91%. General and administrative salaries increased $1.2 million due to headcount and salary increases, other third party services increased by $597,000 resulting from costs associated with compliance activities from being a publicly traded company and insurance expense increased by approximately $130,000.

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Other Income (Expense)

Other income was $256,000 for the three-month period ended March 31, 2007 compared to other expense of $39,000 for the three-month period ended March 31, 2006, an increase of approximately $295,000 or 756%. This increase was largely due to a $389,000 increase in interest income from an increase in cash balances resulting from the amendment of the Paul Capital Healthcare revenue interest agreement in November 2006, as well as a private placement of our common stock in October 2006, and was partially offset by an increase in interest expense of $100,000 principally related to the Paul Capital Healthcare revenue interest agreement.

Cumulative effect of change in accounting principle

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards 123 (revised 2004), Share-Based Payment (SFAS 123R), which requires that the costs resulting from all share-based payment transactions be recognized in the financial statements at their fair values. We adopted SFAS 123R using the modified prospective application method under which the provisions of SFAS 123R apply to new awards and to awards modified, repurchased, or cancelled after the adoption date. Additionally, compensation cost for the portion of the awards for which the requisite service had not been rendered that were outstanding as of the adoption date is recognized in the consolidated statement of operations over the remaining service period after the adoption date based on the award s original estimate of fair value. In connection with the adoption of SFAS No. 123R, the Company changed its method of recognizing the number of outstanding instruments for which the requisite service is not expected to be rendered from an actual basis to an estimate. This change resulted in the recognition of a cumulative effect of change in accounting principle as of January 1, 2006 of $454,000 which was recognized in the three-month period ended March 31, 2006. The cumulative effect adjustment represented the difference between compensation cost recognized through the date of adoption using actual forfeitures and the cost that would have been recognized to date using estimated forfeitures.

Beneficial Conversion Feature, Accretion of Issuance Costs, Preferred Dividends and Fair Value of Warrants Issued to Convertible Preferred Stockholders

Charges related to preferred stock decreased from $36.0 million for the three-month period ended March 31, 2006 to no charge for the three-month period ended March 31, 2007, due to the recognition of the remaining unamortized portion of beneficial conversion charges and issuance costs and reversal of the cumulative preferred dividend upon the completion of our initial public offering of our common stock in February 2006. No further charges are necessary.

Liquidity and Capital Resources

We have incurred annual operating losses since inception and, as of March 31, 2007, we had an accumulated deficit of approximately $239.6 million. We have financed our operations primarily through private placements of our securities, and, to a lesser extent, from loans, government grants and, more recently, our financing arrangement with PRF, and issuance of our common.

Our initial public offering in February 2006 resulted in the issuance of approximately 6.1 million shares of our common stock and the conversion of all of our outstanding convertible and mandatorily convertible preferred stock. In connection with the offering of common shares, we raised approximately $31.5 million, net of issuance costs.

We completed a private placement in October 2006 in which approximately 3.2 million shares of our common stock were sold, resulting in net proceeds to us of approximately $29.8 million, net of issuance costs.

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Financing Arrangements

Since our inception and through March 31, 2007, we have raised aggregate net proceeds of $189.0 million through private placements of equity securities. In January 1997, Elan International Services, Ltd. (EIS) loaned us an aggregate of $7.5 million pursuant to two convertible promissory notes to partly fund our research and development activities, of which $5.0 million was outstanding as of March 31, 2007. In January 2005, we entered into a $6.0 million senior secured term loan, which is collateralized by all of our personal property and fixtures, other than the property that secures our revenue interests assignment arrangement with PRF, of which $995,000 was outstanding as of March 31, 2007.

On December 23, 2005, we entered into a revenue interests assignment agreement with PRF, a dedicated healthcare investment fund, pursuant to which we assigned to PRF the right to a portion of our net revenues (as defined in the agreement) from Zanaflex Capsules, Zanaflex tablets and any future Zanaflex products. To secure our obligations to PRF, we also granted PRF a security interest in substantially all of our assets related to Zanaflex. Our agreement with PRF covers all Zanaflex net revenues generated from October 1, 2005 through and including December 31, 2015, unless the agreement terminates earlier. In November 2006, we entered into an amendment to the revenue interests assignment agreement with PRF. Under the terms of the amendment, PRF paid us $5.0 million in November 2006 and an additional $5.0 million in February 2007 as our net revenues during the fiscal year 2006 exceeded $25.0 million. This milestone receivable was reflected in our 2006 financial statements. Under the terms of the amendment, we are required to pay PRF $5.0 million on December 1, 2009 and an additional $5.0 million on December 1, 2010.

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

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

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

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

Notwithstanding the foregoing, once PRF has received and retained payments under the agreement that are at least 2.1 times the aggregate amount PRF has paid us under the agreement, PRF will only be entitled to 1% of Zanaflex net revenues. In connection with the transaction, we have a liability recorded, referred to as the revenue interest liability, of approximately $23.1 million in accordance with EITF 88-18, *Sales of Future Revenues*. We impute interest expense associated with this liability using the effective interest rate method and record a corresponding accrued interest liability. The effective interest rate is

calculated based on the rate that would enable the debt to be repaid in full over the life of the arrangement. The interest rate on this liability may vary during the term of the agreement depending on a number of factors, including the level of Zanaflex sales. We currently estimate that the imputed interest rate associated with this liability will be approximately 4.5%. Payments made to PRF as a result of Zanaflex sales levels reduce the accrued interest liability and the principal amount of the revenue interest liability.

Investment Activities

At March 31, 2007, cash and cash equivalents and short-term investments were approximately $45.2 million, as compared to $53.8 million at December 31, 2006. Our cash and cash equivalents consist of highly liquid investments with original maturities of three months or less at date of purchase and consist of time deposits and investments in money market funds with commercial banks and financial institutions and

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high-quality government and investment grade corporate bonds. Also, we maintain cash balances with financial institutions in excess of insured limits. We do not anticipate any losses with respect to such cash balances. As of March 31, 2007, our cash and cash equivalents were $13.2 million, as compared to $18.1 million as of December 31, 2006. Our short-term investments consist of corporate debt securities with remaining maturities greater than three months and less than one year. The balance of these investments was $32.0 million as of March 31, 2007, as compared to $35.7 million as of December 31, 2006.

Net Cash Used in Operations

Net cash used in operations was $6.9 million and $15.0 million for the three-month period ended March 31, 2007 and 2006, respectively. Cash used by operations for the three-month period ended March 31, 2007 was primarily attributable to a net loss of $7.5 million, a decrease in accounts payable, accrued expenses, and other liabilities of $2.5 million, a decrease in Zanaflex Capsule deferred product revenue of $1.3 million, a decrease in tablet deferred product revenue of $509,000 and an increase in prepaid expenses and other current assets of $464,000. Cash used in operations for the three-month period ended March 31, 2007, was partially offset by a non-cash stock compensation expense of $2.2 million, a decrease in accounts receivable of $2.0 million due to decreased shipments and a decrease in inventory of $1.1 million. Cash used in operations for the three-month period ended March 31, 2006 was primarily attributable to a net loss of $6.9 million, and a decrease in accounts payable, accrued expenses, and other liabilities of $9.1 million. Cash used in operations for the three-month period ended March 31, 2006, was partially offset by non-cash stock compensation expense of $1.0 million and a decrease in inventory of $379,000.

Net Cash Used in/Provided by Investing

Net cash used in investing activities for the three-month period ended March 31, 2007 was $1.3 million, primarily due to $13.9 million in net purchases of short-term investments, offset by $18.0 million in proceeds from maturities of short-term investments and $5.0 million for the purchase of intangible assets due to a milestone payment relating to Zanaflex Capsules .

Net Cash Used in/Provided by Financing

Net cash provided by financing activities for the year three-month period ended March 31, 2007 was $3.3 million, primarily due to $5.0 million net proceeds received from the PRF transaction which was offset by $1.7 million in repayments to PRF.

Future Capital Needs

Our future capital requirements will depend on a number of factors, including the amount of revenue generated from sales of Zanaflex Capsules, the continued progress of our research and development activities, the timing and outcome of regulatory approvals, the amount and timing of milestone or other payments made under collaborative agreements, the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights and the acquisition of licenses to new products or compounds. We expect to incur losses from operations for at

least the next several years as we continue to expand our sales and marketing infrastructure and increase our marketing efforts to support the commercialization of Zanaflex Capsules, continue our clinical development of Fampridine-SR and advance our preclinical programs.

We believe our existing cash and cash equivalents and short-term investment will be sufficient to fund our operating expenses, debt repayments and capital equipment requirements through the first quarter of 2008. We may seek additional financing in the near future to ensure the completion of Fampridine-SR s clinical development. To the extent our capital resources are insufficient to meet future operating

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

Contractual Obligations and Commitments

In January 2005, we entered into a $6.0 million senior secured term loan with GE Capital. In December 2005, we used a portion of the initial payment we received under our revenue interest assignment arrangement with PRF to repay approximately $3.0 million of this loan. We are required to pay monthly installments until February 2008, with interest-only payments for the first six months followed by principal and interest payments for the remaining 29 months. Interest is fixed at the rate of 9.93% per annum. The loan is secured by all of our personal property and fixtures, other than the property that secures our arrangement with PRF.

In January 1997, EIS loaned us an aggregate of $7.5 million pursuant to two convertible promissory notes. One promissory note in the principal amount of $5.0 million bears interest at a rate of 3% which began on the first anniversary of the note. The other promissory note in the amount of $2.5 million was non-interest bearing. On December 23, 2005, EIS transferred these promissory notes to funds affiliated with Saints Capital. In December 2006, Saints Capital exercised the conversion option of the $2.5 million convertible promissory note at an exercise price of $11.856 per share and received 210,863 shares of common stock. The remaining $5.0 million convertible promissory note is convertible into 67,476 shares of common stock. Principal and interest are repayable, if not converted, ratably over a seven-year period, beginning one year after we receive regulatory approval for certain products to be developed, subject to limitations related to gross margin on product sales. If we and Saints Capital determine that regulatory approval will not likely occur, the $5.0 million promissory note will automatically convert into the underlying common stock unless Saints Capital elects to have the amount due on the note cancelled. If our license and supply agreements with Elan are terminated for any other reason, the principal and interest is repayable ratably over 15 years. The $5.0 million promissory note restricts our ability to incur indebtedness that is senior to the note, subject to certain exceptions, including for our revenue interests assignment arrangement with PRF.

Under our Zanaflex purchase agreement with Elan, we are obligated to make milestone payments to Elan of up to $19.5 million based on cumulative gross sales of Zanaflex tablets and Zanaflex Capsules. As of March 31, 2007, we have made $9.5 million of these milestone payments in the consolidated financial statements. Under our Zanaflex supply agreement with Elan, we are required to provide to Elan an 18-month rolling forecast at the beginning of each month and a two-year forecast not later than July 1 of each year. We are required to order 100% of the forecast required quantities for each five-month period immediately following each monthly forecast report. At March 31, 2007, the forecast requirement for the five-month period following March 31, 2007 amounted to approximately $2.9 million.

Under our Fampridine-SR license agreement with Elan, we are obligated to make milestone payments to Elan of up to $15.0 million over the life of the contract and royalty payments as a percentage of product sales. In addition, under our various other research, license and collaboration agreements with other parties we are obligated to make milestone payments of up to an aggregate of approximately $16.8 million over the life of the contracts.

In December 2005, we entered into a revenue interests assignment agreement with PRF pursuant to which we assigned PRF the right to receive a portion of our net revenues (as defined in the agreement which definition is different from our net revenues as determined in accordance with generally accepted

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accounting principles) from Zanaflex Capsules, Zanaflex tablets and any future Zanaflex products. The agreement covers all such Zanaflex net revenues generated from October 1, 2005 through and including December 31, 2015, unless the agreement is terminated earlier. In consideration for the assignment, PRF paid us $15.0 million at signing. Under our agreement with PRF, we are required to use the net proceeds to support commercialization, sales, marketing, clinical and regulatory activities and other financial obligations related specifically and solely to our Zanaflex operations.

In November 2006, we entered into an amendment to the revenue interests assignment agreement with PRF. Under the amendment, PRF is entitled to a royalty consisting of certain specified percentages of Zanaflex net revenues, based upon the level of net revenues. Previously, once PRF had received and retained payments under the agreement that are at least twice the aggregate amount PRF paid us under the Agreement, the royalty rate would drop to 1% of Zanaflex net revenues. The amendment provides that the royalty rate will drop to 1% upon PRF s receipt of 2.1 times the aggregate amount PRF has paid us under the agreement, as amended. Under the terms of the amendment, PRF paid us $5.0 million in November 2006 and agreed that we would be entitled to an additional $5.0 million is due if our net revenues during the fiscal year 2006 equaled or exceeded $25.0 million. This milestone has been met and the receivable is reflected in our December 31, 2006 financial statements. This milestone payment was received in February 2007. Under the terms of the amendment, we are required to pay PRF $5.0 million on December 1, 2009 and an additional $5.0 million on December 1, 2010.

Under the terms of the employment agreement with our chief executive officer, Ron Cohen, we are obligated to pay severance under certain circumstances. If the employment agreement is terminated by us or by our chief executive officer for reasons other than for cause, we must pay an amount equal to (i) the base salary the chief executive officer would have received during the 15-month period immediately following the date of termination, plus (ii) the last annual bonus received by the chief executive officer multiplied by a fraction, the numerator of which is the number of days in the calendar year elapsed as of the termination date and the denominator of which is 365.

On May 10, 2007, we executed amendments to the employment agreements of our chief executive officer, Dr. Ron Cohen, our chief scientific officer, Dr. Andrew Blight, our chief operating officer, Mary Fisher, our chief financial officer, David Lawrence and our general counsel, Ms. Jane Wasman.

Under the terms of Dr. Cohen s employment agreement, in the event that we terminate the agreement with Dr. Cohen without cause, or if Dr. Cohen voluntarily terminates the agreement with good reason, we are obligated to make severance payments equal to 15 months base annual salary and COBRA premium payments for the severance period plus a bonus equal to his prior year s bonus pro rated for the number of days worked prior to termination. This amount would be paid in a lump sum within 30 days after such termination. In such event, all of Dr. Cohen s options will become immediately exercisable and will remain exercisable for 48 months following termination.

If Dr. Cohen s employment terminates for death or disability, we are obligated to pay his base salary for three months and COBRA premiums for the COBRA coverage period and 65% of his outstanding options will become immediately vested and remain exercisable for 48 months following such termination or for a lesser period, to the extent necessary to comply with U.S. tax law.

If Dr. Cohen voluntarily terminates his employment without good reason following a change in control (as defined in his employment agreement), we are obligated to make severance payments equal to 12 months base annual salary and COBRA premium payments for the severance period and he is entitled to receive a bonus equal to his prior year s bonus pro rated for the number of days worked prior to termination. In addition, upon implementation of the amendment to Dr. Cohen s employment and award agreement(s) as described above, if the change in control constitutes a reorganization event (as defined in the Company s 2006 Employee Incentive Plan), 100% of his outstanding options, restricted stock and any other awards will become immediately vested; otherwise only. Furthermore, all vested

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options will remain exercisable for 48 months following termination. Following his termination of employment, Dr. Cohen will remain subject to confidentiality, non-competition and non-solicitation covenants for one year in the case of non-competition and non-solicitation and five years in the case of confidentiality.

In the event we terminate our employment agreement with Dr. Blight, Ms. Fisher, Mr. Lawrence or Ms. Wasman without cause, or if one of them voluntarily terminates his or her agreements with good reason, we are obligated to make severance payments equal to nine months base annual salary, in the case of Dr. Blight and Ms. Fisher, and seven months base annual salary, in the case of Mr. Lawrence and Ms. Wasman, as well as COBRA premium payments for the severance period. In such event, all options, stock appreciation rights awards and restricted stock awards that have vested as of the termination date shall remain exercisable for 90 days following such date, or for a lesser period, to the extent necessary to comply with U.S. tax law. All unvested options, stock appreciation rights awards and stock awards will be cancelled on the date of termination.

If Dr. Blight, Ms. Fisher, Mr. Lawrence or Ms. Wasman voluntarily terminates his or her employment with good reason or if we terminate his or her employment without cause within 18 months after a change in control (as defined in their employment agreements), we are obligated to make severance payments equal to one year s base annual salary, in the case of Dr. Blight and Ms. Fisher, and nine months base annual salary, in the case of Mr. Lawrence and Ms. Wasman, in each case paid in a lump sum within 30 days after termination, as well as COBRA premium payments for the severance period plus a bonus equal to a prior year s bonus pro rated for the number of days worked prior to termination. We are also obligated to pay salary earned but not paid, vacation and sick leave days that have accrued, and reimbursable business expenses incurred through the date of termination. In addition, upon implementation of the amendment to each executive officer s employment and award agreement(s) as described above, if the change in control constitutes a reorganization event (as defined in the Company s 2006 Employee Incentive Plan), 100% of the outstanding options and restricted stock and any other awards then held by each such executive officer will become immediately vested; otherwise, not less than 50% of the unvested awards will become immediately and full vested. Furthermore, all vested options will remain exercisable for 18 months following such date, or for a lesser period, to the extent necessary to comply with U.S. tax law. All unvested options, stock appreciation rights awards and stock awards will be cancelled on the date of termination.

Critical Accounting Policies and Estimates

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

our areas of critical accounting policies: sales revenue recognition, research and development, income taxes, and stock-based compensation.

Revenue Recognition

We apply the revenue recognition guidance in SFAS No. 48, *Revenue Recognition When the Right of Return Exists*, which among other criteria requires that future returns can be reasonably estimated in order to recognize revenue. Under SFAS No. 48 we are not permitted to recognize revenue until we can reasonably estimate the likely return rate for our products. Since we have only limited sales history with Zanaflex Capsules and due to generic competition and customer conversion from Zanaflex tablets to

Zanaflex Capsules, we do not believe we can reasonably determine a return rate. As a result, we account for sales of these products using a deferred revenue recognition model. At a future point in time, we expect to be able to reasonably estimate product returns, at which point we believe we will begin to recognize revenue based on shipments of product to our wholesale drug distributors.

Under our deferred revenue model, we do not recognize revenue upon shipment of product to our wholesale drug distributors. Instead, we record deferred revenue at gross invoice sales price, and classify the cost basis of the inventory shipped as inventory held by others. We recognize revenue when prescriptions are filled to an end-user because once a prescription is filled the product cannot be returned. We use monthly prescription data that we purchase to determine the amount of revenue to be recognized. We sometimes estimate prescription sales until the data becomes available, at which time adjustments are made to revenue and cost of sales to account for any differences between our estimates and the actual data. To date such differences have been minimal. The estimated prescription sales are based on average previous two month s prescriptions for both Zanaflex tablets and Zanaflex Capsules. Gross sales data reported in the financial statements in this filing are based on three months of actual prescription data. The method for estimating prescriptions is reevaluated as more prescription data becomes available. When we receive the prescription data, we use the number of units of product prescribed to record gross sales. We then reduce deferred revenue and record cost of goods sold.

We accept returns of products for six months prior to and 12 months after their expiration date. Returns of products sold by us are charged directly against deferred revenue, reducing the amount of deferred revenue that we may recognize.

Research and Development

Research and development expenses include the costs associated with our internal research and development activities including, salaries and benefits, occupancy costs, and research and development conducted for us by third parties, such as sponsored university-based research, and clinical trial vendors. We account for our clinical study costs by estimating the patient cost per visit in each clinical trial and recognizing this cost as visits occur, beginning when the patient enrolls in the trial. This estimated cost includes payments to the trial site and patient-related costs, including laboratory costs related to the conduct of the trial. Cost per patient varies based on the type of clinical trial, the site of the clinical trial, and the length of the treatment period for each patient. As actual costs become known to us, we adjust our accrual; such changes in estimate may be a material change in our clinical study accrual, which could also materially affect our results of operations. In addition, research and development expenses include expenses related to grant revenue and the cost of clinical trial drug supply shipped to our clinical study vendors.

Income Taxes

As part of the process of preparing our financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. We account for income taxes by the asset and liability method. Under this method, deferred income taxes are recognized for

tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

We have not recorded any tax provision or benefit for the three-month period ended March 31, 2007 and 2006. We have provided a valuation allowance for the full amount of our net deferred tax assets since realization of any future benefit from deductible temporary differences and net operating loss carry-forwards cannot be sufficiently assured at March 31, 2007.

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As of March 31, 2007, we had available net operating loss carry-forwards of approximately $153.9 million for federal and state income tax purposes, which are available to offset future federal and state taxable income, if any, and expire between 2010 and 2026 and research and development tax credit carry-forwards of approximately $1.3 million for federal income tax reporting purposes which are available to reduce federal income taxes, if any, through 2018. Since our inception, we have incurred substantial losses and expect to incur substantial and recurring losses in future periods. The Internal Revenue Code of 1986, as amended, the Code, provides for a limitation of the annual use of net operating loss and research and development tax credit carry forwards (following certain ownership changes, as defined by the Code) that could significantly limit our ability to utilize these carry-forwards. We have experienced various ownership changes, as defined by the Code, as a result of past financings. Accordingly, our ability to utilize the aforementioned carry-forwards may be limited. Additionally, because U.S. tax laws limit the time during which these carry forwards may be applied against future taxes we may not be able to take full advantage of these attributes for federal income tax purposes.

Stock-Based Compensation

On January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which requires that the costs resulting from all share-based payment transactions be recognized in the financial statements at their fair values. The Company adopted SFAS No. 123R using the modified prospective application method under which the provisions of SFAS No. 123R apply to new awards and to awards modified, repurchased, or cancelled after the adoption date. Additionally, compensation cost for the portion of the awards for which the requisite service has not been rendered that are outstanding as of the adoption date is recognized in the Consolidated Statement of Operations over the remaining service period after the adoption date based on the award s original estimate of fair value.

In connection with the adoption of SFAS No. 123R, the Company changed from recognizing the effect of forfeitures as they occur to estimating the number of outstanding instruments for which the requisite service is not expected to be rendered. Prior to the adoption of SFAS No. 123R, the Company recognized forfeitures associated with its share-based awards as they occurred rather than estimating forfeitures. Upon adoption of SFAS No. 123R, the Company recorded a cumulative effect of change in accounting principle of $454,225 during the three-month period ended March 31, 2006, calculated as the difference between compensation cost recognized to date using actual forfeitures and the cost that would have been recognized to date using estimated forfeitures.

The Company accounts for stock options granted to non-employees on a fair-value basis in accordance with EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, and FASB Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans an Interpretation of APB Opinion No. 15 and 25.*

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. The new standard provides guidance on the definition of and how to measure fair value and what sources of information are to be used in such measurements. It also prescribes expanded disclosures about fair value measurements contained in the financial statements. The Company is in the process of evaluating the new standard which is not expected to have any effect on its financial position or results of operations although financial statement disclosures will be revised to conform to the new guidance. The pronouncement, including the new disclosures, is effective for the Company as of the first quarter of 2008.

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In February 2007, the FASB issued Statement of Financial Account Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including Amendment of FASB Statement No. 115*. The new standard permits, but does not require, entities to measure certain financial instruments and other assets and liabilities at fair value on an instrument-by-instrument basis. Unrealized gains and loses on items for which the fair value option has been elected should be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not believe SFAS 159 will have a material impact on its results from operations or financial position.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. In addition, in May 2007, the FASB issued FASB Staff Position FIN 48-1 which provided guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The Interpretation and Staff Position establishes criteria for recognizing and measuring the financial statement tax effects of positions taken on a company s tax returns. A two-step process is prescribed whereby the threshold for recognition is a more likely-than-not test that the tax position will be sustained upon examination and the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company adopted FIN 48 as of January 1, 2007. The adoption of this Interpretation had no impact on the Company s results of operations or financial position. The Company has no reserves for uncertain tax positions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments consist of cash and cash equivalents, short-term investments, grant receivable, notes payable, convertible notes payable, accounts payable, and put/call liability. The estimated fair values of all of our financial instruments approximate their carrying amounts at March 31, 2007.

We have cash equivalents and short-term investments at March 31, 2007, which are exposed to the impact of interest rate changes and our interest income fluctuates as our interest rates change. Due to the short-term nature of our investments in money market funds and corporate debt securities, the carrying value of our cash equivalents and short-term investments approximate their fair value at March 31, 2007.

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

financial instruments.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

As required by Rule 13a-15 under the Exchange Act, within 90 days prior to filing this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer. Based on that evaluation, these officers have concluded that, as of March 31, 2007, our disclosure controls and procedures were effective and designed to ensure

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that material information relating to us required to be included in our reports filed under the Exchange Act would be made known to them. There have been no changes in our internal controls over financial reporting (as defined in Rules 13a-15(b) and 15(d)-15(f) under the Exchange Act) or in other factors that has materially affected or is reasonably likely to materially affect internal controls over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and regulations. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer as appropriate, to allow timely decisions regarding disclosure.

Change in internal control over financial reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of controls

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

We are not currently a party to any material legal proceedings.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, all of which could materially affect our business, financial condition or future results. The risks described in the Annual Report are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 6. Exhibits

10.1 Amendment to August 11, 2002 Employment Agreement, dated May 10, 2007, by and between the Registrant and Ron Cohen.
10.2 Amendment to December 19, 2005 Employment Agreement, dated May 10, 2007, by and between the Registrant and Andrew R. Blight.
10.3 Amendment to December 19, 2005 Employment Agreement, dated May 10, 2007, by and between the Registrant and Mary Fisher.
10.4 Amendment to December 19, 2005 Employment Agreement, dated May 10, 2007, by and between the Registrant and David Lawrence.
10.5 Amendment to December 19, 2005 Employment Agreement, dated May 10, 2007, by and between the Registrant and Jane Wasman.
31.1 Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2 Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1 Certification Pursuant to 18 USC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Acorda Therapeutics, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the State of New York, on this 14th day of May 2007.

ACORDA THERAPEUTICS, INC.

By: /s/ RON COHEN
Ron Cohen
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RON COHEN	President, Chief Executive Officer and	May 14, 2007
Ron Cohen, M.D.	Director (Principal Executive Officer)	
/s/ DAVID LAWRENCE	Chief Financial Officer (Principal Financial	May 14, 2007
David Lawrence, M.B.A.	Officer and Principal Accounting Officer)	

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