

Sears Holdings CORP  
Form 425  
January 07, 2005

Filed by Sears, Roebuck and Co.

Pursuant to Rule 425 under the Securities Act of 1933 and deemed filed pursuant to Rule 14a-12 of the Securities Exchange Act of 1934

Subject Company:  
Sears Holdings Corporation  
(Registration No. 333-120954)

This filing contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, but are not limited to, statements about the benefits of the business combination transaction involving Kmart Holding Corporation and Sears, Roebuck and Co., including cost and revenue synergies of the proposed transaction, expected accretion to earnings, future financial and operating results, the combined company's plans, objectives, expectations and intentions and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of Kmart's and Sears' management and are subject to significant risks and uncertainties. Actual results, performance or achievements may be materially different from those expressed or implied in such forward-looking statements.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: the ability to obtain governmental approvals of the transaction on the proposed terms and schedule; the failure of Kmart and Sears stockholders to approve the transaction; the risk that the businesses will not be integrated successfully; failure to quickly realize cost-savings from the transaction as a result of technical, logistical, competitive and other factors; disruption from the transaction making it more difficult to maintain relationships with clients, employees or suppliers; competitive conditions in retail and related services industries; changes in consumer confidence, tastes, preferences and spending; the availability and level of consumer debt; the successful execution of, and customer response to, strategic initiatives, including the Full-line Store strategy and the conversion and integration of the Kmart stores and other new store locations; the pace of growth in store locations, which may be higher or lower than anticipated; the possibility that new business and strategic options for one or more business segments will be identified, potentially including selective acquisitions, dispositions, restructurings, joint ventures and partnerships; trade restrictions, tariffs, and other factors potentially affecting the ability to find qualified vendors and access products in an efficient manner; the ability to successfully implement initiatives to improve inventory management capabilities; the outcome of pending legal proceedings; anticipated cash flow; social and political conditions such as war, political unrest and terrorism or natural disasters; the possibility of negative investment returns in any pension plans; changes in interest rates; volatility in financial markets; changes in debt ratings, credit spreads and cost of funds; the possibility of interruptions in systematically accessing the public debt markets; general economic conditions and normal business uncertainty; and the impact of seasonable buying patterns, which are difficult to forecast with certainty. These forward-looking statements speak only as of the time first made, and no undertaking has been made to update or revise them as more information becomes available. Additional factors that could cause Kmart's and Sears' results to differ materially from those de-

---

scribed in the forward-looking statements can be found in the 2003 Annual Reports on Forms 10-K of Kmart and Sears filed with the SEC and available at the SEC's Internet site (<http://www.sec.gov>).

**Stockholders are urged to read the joint proxy statement/prospectus regarding the proposed transaction when it becomes available, because it will contain important information.** Stockholders will be able to obtain a free copy of the joint proxy statement/prospectus, as well as other filings containing information about Kmart and Sears, without charge, at the SEC's Internet site (<http://www.sec.gov>). Copies of the joint proxy statement/prospectus and the filings with the SEC that will be incorporated by reference in the joint proxy statement/prospectus can also be obtained, without charge, by directing a request to Kmart Holding Corporation, 3100 West Big Beaver Road, Troy, Michigan, 48084, Attention: Office of the Secretary, or to Sears, Roebuck and Co., 3333 Beverly Road, Hoffman Estates, Illinois, 60179, Attention: Office of the Secretary.

The respective directors and executive officers of Kmart and Sears and other persons may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction. Information regarding Kmart's directors and executive officers is available in its proxy statement filed with the SEC by Kmart on April 8, 2004, and information regarding Sears' directors and executive officers is available in its proxy statement filed with the SEC by Sears on March 22, 2004. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained the joint proxy statement/prospectus and other relevant materials to be filed with the SEC when they become available.

\* \* \*

---

**Associate Merger Q&A for Jan. 6 publication**

*Why are Sears stock options being cashed out at merger close rather than converted into stock at the new company?*  
 Unexercised options are being cashed out at an amount designed to mirror the value of the 45%/55% cash/stock consideration that Sears shareholders will receive in the merger. As such, the cash payment reflects the underlying equity value of the option in the merger. Associates who prefer to own stock in Sears Holdings may use this cash to purchase stock on the open market.

*Will stock option grants be part of the new company?*

While a final decision has not been made on the granting of stock options in the new company, the leadership has indicated there will not be broad-based stock options.

1px solid #000000">

Net cash flows (used in) provided by investing activities

(126,795 ) 249,737

Cash flows from financing activities:

Purchase of treasury stock

(195,287 ) (577,580 )

Proceeds from issuance of stock for share-based compensation arrangements

91,155 52,818

Excess tax benefit from share-based compensation

10,060 4,379

Change in cash overdraft

(2,466 ) (1,826 )

Net contributions from noncontrolling interests

760

Repayments of borrowings

(2,113 ) (2,011 )

Repayments on financing arrangement for the sale of the San Diego facility

(1,181 )

Net cash flows used in financing activities

(99,832 ) (523,460 )

Net increase in cash and cash equivalents

26,951 63,172

Effect of exchange rate changes on cash and cash equivalents

4,126 (5,502 )

Cash and cash equivalents, beginning of the period

759,598 581,889

Cash and cash equivalents, end of the period

\$ 790,675 \$ 639,559

See accompanying notes to these unaudited condensed consolidated financial statements

**Table of Contents**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited)*

**1. Business**

*Overview*

Biogen Idec is a global biotechnology company focused on discovering, developing, manufacturing and marketing products for the treatment of serious diseases with a focus on neurological disorders. We currently have four marketed products: AVONEX, RITUXAN, TYSABRI, and FUMADERM. Our marketed products are used for the treatment of multiple sclerosis (MS), non-Hodgkin's lymphoma (NHL), rheumatoid arthritis (RA), Crohn's disease, chronic lymphocytic leukemia (CLL), and psoriasis.

*Basis of Presentation*

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial statements for interim periods in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The information included in this quarterly report on Form 10-Q should be read in conjunction with our consolidated financial statements and the accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K). Our accounting policies are described in the Notes to Consolidated Financial Statements in our 2010 Form 10-K and updated, as necessary, in this Form 10-Q. The year-end condensed consolidated balance sheet data presented for comparative purposes was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the operating results for the full year or for any other subsequent interim period.

*Consolidation*

Our condensed consolidated financial statements reflect our financial statements, those of our wholly-owned subsidiaries and those of certain variable interest entities in which we are the primary beneficiary. For such consolidated entities in which we own less than a 100% interest, we record net income (loss) attributable to noncontrolling interests in our consolidated statement of income equal to the percentage of the economic or ownership interest retained in the collaborative arrangement or joint venture by the respective noncontrolling parties. All material intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of an entity, we apply a qualitative approach, that determines whether we have both (1) the power to direct the economically significant activities of the entity and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to that entity. These considerations impact the way we account for our existing collaborative and joint venture relationships and determine the consolidation of companies or entities with which we have collaborative or other arrangements. Determination about whether an enterprise should consolidate a variable interest entity is required to be evaluated continuously as changes to existing relationships or future transactions may result in us consolidating or deconsolidating our partner(s) to collaborations and other arrangements.

*Use of Estimates*

The preparation of our condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates, judgments, and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments and methodologies, including those related to revenue recognition and related allowances, our collaborative relationships, clinical trial expenses, the consolidation of variable interest entities, the valuation of contingent consideration resulting from a business combination, the

**Table of Contents**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, continued)*

valuation of acquired intangible assets including in-process research and development, inventory, impairment and amortization of long-lived assets including intangible assets, impairments of goodwill, share-based compensation, income taxes including the valuation allowance for deferred tax assets, valuation of investments, derivatives and hedging activities, contingencies, litigation, and restructuring charges. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

***Subsequent Events***

We did not have any material recognizable subsequent events. However, we did have the following unrecognizable subsequent event:

In April 2011, we agreed to terminate our collaboration with Vernalis plc (Vernalis) for the development and commercialization of an adenosine A2a receptor antagonist for treatment of Parkinson's disease effective April 11, 2011. Under the terms of the agreement, we will return the program to Vernalis and have no further license to, or continuing involvement in the development of, this compound and its related intellectual property. In exchange, we will receive a royalty on future net sales if this compound is ultimately commercialized. We funded development costs through the effective date and have no other remaining development obligations after that date. Development expense incurred by this collaboration in 2011 was insignificant.

**2. Acquisitions**

***Acquisition of Panima Pharmaceuticals AG***

On December 17, 2010, we completed our acquisition of 100% of the stock of Panima Pharmaceuticals AG (Panima), an affiliate of Neurimmune AG. The purchase price was comprised of a \$32.5 million cash payment, plus up to \$395.0 million in contingent consideration payable upon the achievement of development milestones. Panima is a business involved in the discovery of antibodies designed to treat neurological disorders.

Upon acquisition, we recorded a liability of \$81.2 million representing the acquisition date fair value of the contingent consideration. As of March 31, 2011, the fair value of the total contingent consideration obligation reflected within our condensed consolidated balance sheet was \$82.4 million, of which \$4.9 million was reflected as a component of accrued expenses and other and \$77.5 million was reflected as a component of other long-term liabilities. The change in fair value of this obligation was recognized as a fair value adjustment of contingent consideration within our condensed consolidated statement of income for the three months ended March 31, 2011. For additional information related to this transaction, please read Note 2, *Acquisitions* to our consolidated financial statements included within our 2010 Form 10-K.

***Acquisition of Biogen Idec Hemophilia Inc.***

In connection with our acquisition of Biogen Idec Hemophilia Inc. (BIH), formerly Syntonix Pharmaceuticals, Inc. (Syntonix), in January 2007, we agreed to make additional future consideration payments based upon the achievement of certain milestone events associated with the development of BIH's lead product, long-lasting recombinant Factor

IX, a product for the treatment of hemophilia B. One of these milestones was achieved when, in January 2010, we initiated patient enrollment in a registrational trial of Factor IX. As a



**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)*

result of the achievement of this milestone, we paid approximately \$40.0 million to the former shareholders of Syntonix. We recorded this payment as a charge to acquired in-process research and development within our condensed consolidated statement of income for the three months ended March 31, 2010, in accordance with the accounting standard applicable to business combinations when we acquired BIH.

**3. Restructuring**

In November 2010, we announced a number of strategic, operational, and organizational initiatives designed to provide a framework for the future growth of our business and realign our overall structure to become a more efficient and cost effective organization. As part of this initiative:

We have terminated or are in the process of discontinuing certain research and development programs, including those in oncology and cardiovascular medicine that are no longer a strategic fit for our Company.

We have substantially completed a 13% reduction in workforce spanning our sales, research and development, and administrative functions.

We are in the process of vacating the San Diego, California facility and consolidating our Massachusetts facilities. In October 2010, we sold the San Diego facility and agreed to lease back the facility for a period of 15 months. In January 2011, we entered into an agreement to terminate this lease effective August 31, 2011. For a more detailed description of these transactions, please read Note 11, *Property, Plant and Equipment* to these condensed consolidated financial statements.

We expect to incur total restructuring charges of approximately \$110.0 million associated with the implementation of these initiatives. Costs associated with our workforce reduction primarily relate to employee severance and benefits. Facility consolidation costs are primarily comprised of charges associated with the closing of facilities, related lease obligations and additional depreciation recognized when the expected useful lives of certain assets have been shortened due to the consolidation and closing of related facilities and the discontinuation of certain research and development programs.

For the three months ended March 31, 2011, we recognized restructuring charges totaling \$16.6 million within our condensed consolidated statement of income, comprised of approximately \$12.1 million for workforce reduction and \$4.5 million for facility consolidation, of which \$3.5 million relates to additional depreciation. We previously recognized \$75.2 million of restructuring charges within our consolidated statement of income during the fourth quarter of 2010. We expect that our restructuring efforts will be substantially completed, and that substantially all of the remaining restructuring charges will be incurred and paid by the end of 2011.

The following table summarizes the activity of our restructuring liability:

<b>(In millions)</b>	<b>Workforce Reduction</b>	<b>Facility Consolidation</b>	<b>Total</b>
Restructuring reserve as of December 31, 2010	\$ 60.6	\$ 5.8	\$ 66.4

Edgar Filing: Sears Holdings CORP - Form 425

Expense	10.5	0.9	11.4
(Payments) receipts, net	(64.0)	(0.4)	(64.4)
Adjustments to previous estimates, net	1.7		1.7
Other adjustments	8.6	(3.2)	5.4
Restructuring reserve as of March 31, 2011	\$ 17.4	\$ 3.1	\$ 20.5

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)***4. Revenue Recognition**

We recognize revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; our price to the customer is fixed or determinable; and collectability is reasonably assured.

***Product Revenues***

Revenues from product sales are recognized when title and risk of loss have passed to the customer, which is typically upon delivery. However, sales of TYSABRI in the U.S. are recognized on the sell-through model, that is, upon shipment of the product by Elan Pharma International, Ltd. (Elan), an affiliate of Elan Corporation, plc, to its third party distributor rather than upon shipment to Elan. Product revenues are recorded net of applicable reserves for discounts and allowances. Our product revenue reserves are based on estimates of the amounts earned or to be claimed on the related sales. These estimates take into consideration our historical experience, current contractual requirements and statutory requirements, specific known market events and trends and forecasted customer buying patterns.

***Reserves for Discounts and Allowances***

We establish reserves for trade term discounts, wholesaler incentives, Medicaid rebates, Veterans Administration (VA) and Public Health Service (PHS) discounts, managed care rebates, product returns and other governmental rebates or applicable allowances. Reserves established for these discounts and allowances are classified as reductions of accounts receivable (if the amount is payable to our customer) or a liability (if the amount is payable to a party other than our customer). In addition, we distribute no-charge product to qualifying patients under our patient assistance and patient replacement goods program. This program is administered through one of our distribution partners, which ships product to qualifying patients from its own inventory received from us. Gross revenue and the related reserves are not recorded on product shipped under this program and cost of sales is recorded when the product is shipped.

Product revenue reserves are categorized as follows: discounts, contractual adjustments and returns. Our estimates take into consideration our historical experience, current contractual and statutory requirements, specific known market events and trends and forecasted customer buying patterns. Actual amounts may ultimately differ from our estimates.

An analysis of the amount of, and change in, reserves is summarized as follows:

<b>(In millions)</b>	<b>Discounts</b>	<b>Contractual Adjustments</b>	<b>Returns</b>	<b>Total</b>
Balance, as of December 31, 2010	\$ 13.9	\$ 107.0	\$ 21.1	\$ 142.0
Current provisions relating to sales in current year	23.8	91.5	3.8	119.1
Adjustments relating to prior years		(5.4)	(1.0)	(6.4)
Payments/returns relating to sales in current year	(10.4)	(22.3)	(0.2)	(32.9)
Payments/returns relating to sales in prior years	(12.4)	(46.6)	(1.4)	(60.4)

Edgar Filing: Sears Holdings CORP - Form 425

Balance, as of March 31, 2011	\$	14.9	\$	124.2	\$	22.3	\$	161.4
-------------------------------	----	------	----	-------	----	------	----	-------

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)*

The total reserves above, included in our condensed consolidated balance sheets, are summarized as follows:

<b>(In millions)</b>	<b>As of March 31, 2011</b>	<b>As of December 31, 2010</b>
Reduction of accounts receivable	\$ 38.5	\$ 36.7
Current liability	122.9	105.3
Total reserves	\$ 161.4	\$ 142.0

***Revenues from Unconsolidated Joint Business***

We collaborate with Genentech on the development and commercialization of RITUXAN. Revenues from unconsolidated joint business consist of (1) our share of pre-tax co-promotion profits in the U.S.; (2) reimbursement of our selling and development expense in the U.S.; and (3) revenue on sales of RITUXAN in the rest of world, which consists of our share of pretax co-promotion profits in Canada and royalty revenue on sales of RITUXAN outside the U.S. and Canada by F. Hoffmann-La Roche Ltd. (Roche) and its sublicensees. Pre-tax co-promotion profits are calculated and paid to us by Genentech in the U.S. and by Roche in Canada. Pre-tax co-promotion profits consist of U.S. and Canadian sales of RITUXAN to third-party customers net of discounts and allowances less the cost to manufacture RITUXAN, third-party royalty expenses, distribution, selling and marketing, and development expenses incurred by Genentech, Roche and us. We record our share of the pretax co-promotion profits in Canada and royalty revenues on sales of RITUXAN outside the U.S. on a cash basis. Additionally, our share of the pretax co-promotion profits in the U.S. includes estimates supplied by Genentech.

***Royalty Revenues***

We receive royalty revenues on sales by our licensees of other products covered under patents that we own. There are no future performance obligations on our part under these license arrangements. We record these revenues based on estimates of the sales that occurred during the relevant period. The relevant period estimates of sales are based on interim data provided by licensees and analysis of historical royalties that have been paid to us, adjusted for any changes in facts and circumstances, as appropriate. We maintain regular communication with our licensees in order to assess the reasonableness of our estimates. Differences between actual royalty revenues and estimated royalty revenues are adjusted in the period in which they become known, typically the following quarter. Historically, adjustments have not been material when compared to actual amounts paid by licensees. If we are ever unable to accurately estimate revenue, then we record revenues on a cash basis.

**5. Accounts Receivable**

Our accounts receivable primarily arise from product sales in the U.S. and Europe and primarily represent amounts due from our wholesale distributors, large pharmaceutical companies, public hospitals and other government entities.

The majority of our accounts receivable have standard payment terms which are generally between 30 and 90 days. We monitor the financial performance and credit worthiness of our large customers so that we can properly assess and respond to changes in their credit profile. We provide reserves against trade receivables for estimated losses that may result from a customer's inability to pay. Amounts determined to be uncollectible are charged or written-off against the reserve. To date, such losses have not exceeded management's estimates.

Concentrations of credit risk with respect to receivables, which are typically unsecured, are limited due to the wide variety of customers and markets using our products, as well as their dispersion across many different geographic areas. We continue to monitor economic conditions, including volatility associated with

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)*

international economies, and related impacts on the relevant financial markets and our business, especially in light of sovereign credit issues. The credit and economic conditions within Italy, Spain, Portugal and Greece, among other members of the European Union, have deteriorated throughout 2010. These conditions have resulted in, and may continue to result in, an increase in the average length of time that it takes to collect on our accounts receivable outstanding in these countries. As of March 31, 2011, our accounts receivable balances in Italy, Spain and Portugal were \$141.3 million, \$113.9 million, and \$28.7 million, respectively, totaling approximately \$283.9 million. Approximately \$70.0 million of this amount was outstanding for greater than one year. As of March 31, 2011, we had \$69.6 million of receivables that are expected to be collected beyond one year, which are included as a component of investments and other assets within our condensed consolidated balance sheets.

Our concentrations of credit risk related to our accounts receivable from product sales in Greece to date have been limited as our receivables within this market are due from our distributor. As of March 31, 2011, our accounts receivable balances due from our distributor in Greece totaled \$7.1 million. These receivables remain current and substantially in compliance with their contractual due dates.

To date, we have not experienced any significant losses or write-offs with respect to the collection of our accounts receivable in these countries.

**6. Inventory**

The components of inventory are summarized as follows:

<b>(In millions)</b>	<b>As of March 31, 2011</b>	<b>As of December 31, 2010</b>
Raw materials	\$ 62.1	\$ 59.0
Work in process	147.4	142.2
Finished goods	85.8	87.9
Total inventory	\$ 295.3	\$ 289.1

**7. Intangible Assets and Goodwill***Intangible Assets*

Intangible assets, net of accumulated amortization, impairment charges and adjustments, are summarized as follows:

<b>(In millions)</b>	<b>Estimated Life</b>	<b>As of March 31, 2011</b>			<b>As of December 31, 2010</b>		
		<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>

Edgar Filing: Sears Holdings CORP - Form 425

Out-licensed patents	12 years	\$ 578.0	\$ (360.5)	\$ 217.5	\$ 578.0	\$ (350.2)	\$ 227.8
Core developed technology	15-23 years	3,005.3	(1,679.6)	1,325.7	3,005.3	(1,636.9)	1,368.4
In-process research and development	Up to 15 years upon commercialization	110.9		110.9	110.9		110.9
Trademarks and tradenames	Indefinite	64.0		64.0	64.0		64.0
In-licensed patents	Up to 14 years	15.3	(1.6)	13.7	3.0	(1.3)	1.7
Assembled workforce	4 years	2.1	(2.1)		2.1	(2.1)	
Distribution rights	2 years	12.7	(12.7)		12.7	(12.7)	
Total intangible assets		\$ 3,788.3	\$ (2,056.5)	\$ 1,731.8	\$ 3,776.0	\$ (2,003.2)	\$ 1,772.8



**Table of Contents**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, continued)*

Our most significant intangible asset is the core technology related to our AVONEX product. The net book value of this asset as of March 31, 2011 was \$1,312.1 million. For the three months ended March 31, 2011 and 2010, amortization for acquired intangible assets totaled \$53.3 million and \$48.9 million, respectively, and is expected to be in the range of approximately \$180.0 million to \$220.0 million annually through 2015.

In the first quarter of 2011, we entered into a license agreement granting us exclusive patent rights for the diagnostic and therapeutic application of recombinant virus-like particles, known as VP1 proteins. These VP1 proteins are used to detect antibodies of the JC virus (JCV) in serum or blood. Under the terms of this agreement, we expect to make payments totaling approximately \$46.2 million through 2016. These payments include upfront and milestone payments as well as the greater of an annual maintenance fee or usage-based royalty payment. As of March 31, 2011, we recognized an intangible asset in the amount of \$12.3 million, reflecting the total of upfront and other time-based milestone payments expected to be made. We will further capitalize additional payments due under this arrangement as an intangible asset as they become payable. We will amortize the intangible asset resulting from these payments utilizing an economic consumption amortization model with the amount of amortization determined by the ratio of actual JCV assay tests performed in the current period to the total number of JCV assay tests expected to be performed through 2016.

Other than the amounts recorded in connection with the license agreement described above, intangible assets were unchanged as of March 31, 2011 compared to December 31, 2010, excluding the impact of the amortization.

***Goodwill***

Our goodwill balance remained unchanged as of March 31, 2011 compared to December 31, 2010. As of March 31, 2011, we had no accumulated impairment losses.

**8. Fair Value Measurements**

A majority of our financial assets and liabilities have been classified as Level 2. Our financial assets and liabilities (which include our cash equivalents, derivative contracts, marketable debt securities, and plan assets for deferred compensation) have been initially valued at the transaction price and subsequently valued, at the end of each reporting period, typically utilizing third party pricing services or other market observable data. The pricing services utilize industry standard valuation models, including both income and market based approaches and observable market inputs to determine value. These observable market inputs include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers, current spot rates and other industry and economic events. We validate the prices provided by our third party pricing services by reviewing their pricing methods and matrices, obtaining market values from other pricing sources, analyzing pricing data in certain instances and confirming that the relevant markets are active. After completing our validation procedures, we did not adjust or override any fair value measurements provided by our pricing services as of March 31, 2011 and December 31, 2010.

Our strategic investments in publicly traded equity securities are classified as Level 1 assets as their fair values are readily determinable and based on quoted market prices.

We also maintain certain investments classified as Level 3 whose fair value is initially measured at transaction prices and subsequently valued using the pricing of recent financing or by reviewing the underlying economic fundamentals and liquidation value of the companies. Our venture capital investments are the only investments for which we used Level 3 inputs to determine the fair value and represented approximately 0.2% and 0.3% of our total assets as of March 31, 2011 and December 31, 2010, respectively. These investments

**Table of Contents**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, continued)*

include investments in certain biotechnology oriented venture capital funds which primarily invest in small privately-owned, venture-backed biotechnology companies. The fair value of our investments in these venture capital funds has been estimated using the net asset value of the fund. The investments cannot be redeemed within the funds. Distributions from each fund will be received as the underlying investments of the fund are liquidated. The funds and therefore a majority of the underlying assets of the funds will not be liquidated in the near future. The underlying assets in these funds are initially measured at transaction prices and subsequently valued using the pricing of recent financings or by reviewing the underlying economic fundamentals and liquidation value of the companies that the funds invest in. We apply judgments and estimates when we validate the prices provided by third parties. While we believe the valuation methodologies are appropriate, the use of valuation methodologies is highly judgmental and changes in methodologies can have a material impact on our results of operations. Gains and losses (realized and unrealized) included in earnings for the period are reported in other income (expense), net.

In addition, during the fourth quarter of 2010, we recognized an in-process research and development asset and recorded a contingent consideration obligation related to our acquisition of Panima. The amount allocated to in-process research and development represents the fair value of the three programs acquired and was based on comparable transactions and a risk-adjusted estimate of future cash flows determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting revenue from the projects, and discounting the net cash flows to present value. We determined the fair value of the contingent consideration obligation based upon probability-weighted assumptions related to the achievement of certain milestone events and thus the likelihood of us making payments. These fair value measurements are based on inputs not observable in the market and therefore represent Level 3 measurements. We revalue the acquisition-related contingent consideration obligation on a recurring basis each reporting period and assess the in-process research and development asset for impairment at least annually until commercialization of the underlying programs after which time the asset will be amortized over its estimated useful life.

Our Level 3 contingent consideration obligation as of March 31, 2011 and December 31, 2010 was \$82.4 million and \$81.2 million, respectively. These valuations were determined based upon net cash outflow projections of \$395.0 million, discounted using a rate of 6.0% and 6.1%, respectively, which is the cost of debt financing for market participants. The change in fair value of this obligation, of \$1.2 million, was primarily due to changes in the expected timing related to the achievement of certain developmental milestones and was recognized as a fair value adjustment of contingent consideration within our condensed consolidated statement of income for the three months ended March 31, 2011.

There were no transfers between fair value measurement levels during the three months ended March 31, 2011.

The tables below present information about our financial assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010, and indicate the fair value hierarchy of the valuation techniques we utilized to determine such fair value:

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)*

<b>(In millions)</b>	<b>Balance as of</b>	<b>Quoted Prices</b>	<b>Significant Other</b>	<b>Significant</b>
				<b>Unobservable</b>
	<b>March 31,</b>	<b>in</b>	<b>Observable</b>	<b>Inputs</b>
	<b>2011</b>	<b>Active Markets</b>	<b>Inputs</b>	<b>(Level 3)</b>
		<b>(Level 1)</b>	<b>(Level 2)</b>	
<b>Assets:</b>				
Cash equivalents	\$ 679.4	\$	\$ 679.4	\$
<b>Marketable debt securities:</b>				
Corporate debt securities	343.4		343.4	
Government securities	865.1		865.1	
Mortgage and other asset backed securities	114.8		114.8	
Strategic investments	2.0	2.0		
Venture capital investments	20.5			20.5
Derivative contracts	0.2		0.2	
Plan assets for deferred compensation	14.6		14.6	
<b>Total</b>	<b>\$ 2,040.0</b>	<b>\$ 2.0</b>	<b>\$ 2,017.5</b>	<b>\$ 20.5</b>
<b>Liabilities:</b>				
Derivative contracts	\$ 32.1	\$	\$ 32.1	\$
Acquisition-related contingent consideration	82.4			82.4
<b>Total</b>	<b>\$ 114.5</b>	<b>\$</b>	<b>\$ 32.1</b>	<b>\$ 82.4</b>

<b>(In millions)</b>	<b>Balance as of</b>	<b>Quoted Prices</b>	<b>Significant Other</b>	<b>Significant</b>
				<b>Unobservable</b>
	<b>December 31,</b>	<b>in</b>	<b>Observable</b>	<b>Inputs</b>
	<b>2010</b>	<b>Active Markets</b>	<b>Inputs</b>	<b>(Level 3)</b>
		<b>(Level 1)</b>	<b>(Level 2)</b>	
<b>Assets:</b>				
Cash equivalents	\$ 651.8	\$	\$ 651.8	\$
<b>Marketable debt securities:</b>				
Corporate debt securities	313.0		313.0	
Government securities	785.3		785.3	

Edgar Filing: Sears Holdings CORP - Form 425

Mortgage and other asset backed securities	92.9		92.9	
Strategic investments	44.8	44.8		
Venture capital investments	20.8			20.8
Derivative contracts	1.3		1.3	
Plan assets for deferred compensation	13.0		13.0	
Total	\$ 1,922.9	\$ 44.8	\$ 1,857.3	\$ 20.8
Liabilities:				
Derivative contracts	\$ 12.2	\$	\$ 12.2	\$
Acquisition-related contingent consideration	81.2			81.2
Total	\$ 93.4	\$	\$ 12.2	\$ 81.2

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)*

The following table provides a roll forward of the fair value of our venture capital investments, which are all Level 3 assets:

<b>(In millions)</b>	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Beginning balance, January 1	\$ 20.8	\$ 21.9
Unrealized gains included in earnings	0.6	
Unrealized losses included in earnings	(1.0)	(1.5)
Purchases	0.1	0.4
Issuances		
Settlements		
Ending balance, March 31	\$ 20.5	\$ 20.8

The fair and carrying values of our debt instruments, which are all Level 2 liabilities, are summarized as follows:

<b>(In millions)</b>	<b>As of March 31, 2011</b>		<b>As of December 31, 2010</b>	
	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>
Credit line from Dompé	\$ 6.4	\$ 6.3	\$ 8.1	\$ 8.0
Notes payable to Fumedica	24.7	22.7	24.2	22.0
6.0% Senior Notes due 2013	482.1	449.8	485.5	449.8
6.875% Senior Notes due 2018	623.3	596.5	618.0	597.9
Total	\$ 1,136.5	\$ 1,075.3	\$ 1,135.8	\$ 1,077.7

The fair values of our credit line from Dompé and our note payable to Fumedica were estimated using market observable inputs, including current interest and foreign currency exchange rates. The fair value of our Senior Notes was determined through market, observable, and corroborated sources.

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)***9. Financial Instruments*****Marketable Securities, including Strategic Investments***

The following tables summarize our marketable securities and strategic investments:

<b>As of March 31, 2011 (In millions):</b>	<b>Fair Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Amortized Cost</b>
<i>Available-for-sale</i>				
Corporate debt securities				
Current	\$ 117.8	\$ 0.2	\$	\$ 117.6
Non-current	225.6	0.7	(0.5)	225.4
Government securities				
Current	317.8	0.2		317.6
Non-current	547.3	0.2	(0.6)	547.7
Mortgage and other asset backed securities				
Current	2.2			2.2
Non-current	112.6	0.5	(0.3)	112.4
Total available-for-sale securities	\$ 1,323.3	\$ 1.8	\$ (1.4)	\$ 1,322.9
<i>Other Investments</i>				
Strategic investments, non-current	\$ 2.0	\$ 0.5	\$	\$ 1.5

<b>As of December 31, 2010 (In millions):</b>	<b>Fair Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Amortized Cost</b>
<i>Available-for-sale</i>				
Corporate debt securities				
Current	\$ 93.2	\$ 0.1	\$	\$ 93.1
Non-current	219.8	2.1	(0.5)	218.2
Government securities				
Current	352.8	0.2		352.6
Non-current	432.5	0.6	(0.6)	432.5
Mortgage and other asset backed securities				
Current	2.1			2.1
Non-current	90.8	0.5	(0.2)	90.5

Edgar Filing: Sears Holdings CORP - Form 425

Total available-for-sale securities	\$ 1,191.2	\$ 3.5	\$ (1.3)	\$ 1,189.0
<i>Other Investments</i>				
Strategic investments, non-current	\$ 44.8	\$ 17.5	\$	\$ 27.3

In the tables above, as of March 31, 2011 and December 31, 2010, government securities included \$198.8 million and \$163.5 million, respectively, of Federal Deposit Insurance Corporation (FDIC) guaranteed senior notes issued by financial institutions under the Temporary Liquidity Guarantee Program.

Certain commercial paper and short-term debt securities with original maturities of less than 90 days are included in cash and cash equivalents on the accompanying condensed consolidated balance sheets and are not



Table of Contents**BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)*

included in the tables above. As of March 31, 2011 and December 31, 2010, the carrying value of our commercial paper, including accrued interest, was \$89.8 million and \$30.0 million, respectively. As of March 31, 2011 and December 31, 2010, the carrying value of our short-term debt securities was \$589.6 million and \$621.8 million, respectively. The carrying values of our commercial paper, including accrued interest, and our short-term debt securities approximate fair value.

***Summary of Contractual Maturities: Available-for-Sale Securities***

The estimated fair value and amortized cost of securities, excluding strategic investments, available-for-sale by contractual maturity are summarized as follows:

<b>(In millions)</b>	<b>As of March 31, 2011</b>		<b>As of December 31, 2010</b>	
	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>
Due in one year or less	\$ 437.8	\$ 437.4	\$ 448.1	\$ 447.8
Due after one year through five years	774.7	774.7	664.1	662.4
Due after five years	110.8	110.8	79.0	78.8
Total	\$ 1,323.3	\$ 1,322.9	\$ 1,191.2	\$ 1,189.0

The average maturity of our marketable securities as of March 31, 2011 and December 31, 2010 was 12 months and 11 months, respectively.

***Proceeds from Marketable Securities***

The proceeds from maturities and sales of marketable securities, excluding strategic investments and resulting realized gains and losses, are generally reinvested, and are summarized as follows:

<b>(In millions)</b>	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Proceeds from maturities and sales	\$ 788.1	\$ 1,029.3
Realized gains	\$ 2.4	\$ 5.7
Realized losses	\$ (0.8)	\$ 0.7

During the first quarter of 2011, we also recognized within other income (expense), net a gain of \$13.8 million on the sale of stock from our strategic investment portfolio.

***Impairments***

We conduct periodic reviews to identify and evaluate each investment that has an unrealized loss, in accordance with the meaning of other-than-temporary impairment and its application to certain investments.

For the three months ended March 31, 2011, we recognized \$1.2 million in charges for the impairment of our investments in venture capital funds and investments in privately-held companies. No impairments were recognized in relation to our publicly-held strategic investments.

For the three months ended March 31, 2010, we recognized \$15.8 million in charges for the impairment of our publicly-held strategic investments, investments in venture capital funds and investments in privately-held companies, which was primarily due to one of our strategic investments executing an equity offering at a price below our cost basis during the first quarter of 2010.

Table of Contents**BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)***10. Derivative Instruments***Foreign Currency Forward Contracts*

Due to the global nature of our operations, portions of our revenues are earned in currencies other than the U.S. dollar. The value of revenues measured in U.S. dollars is subject to changes in currency exchange rates. In order to mitigate these changes we use foreign currency forward contracts to lock in exchange rates associated with a portion of our forecasted international revenues.

Foreign currency forward contracts in effect as of March 31, 2011 and December 31, 2010 had durations of 1 to 12 months. These contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in accumulated other comprehensive income (loss). Realized gains and losses for the effective portion of such contracts are recognized in revenue when the sale of product in the currency being hedged is recognized. To the extent ineffective, hedge transaction gains and losses are reported in other income (expense), net.

The notional value of foreign currency forward contracts that were entered into to hedge forecasted revenue is summarized as follows:

	<b>Notional Amount</b>	
	<b>As of March 31, 2011</b>	<b>As of December 31, 2010</b>
<b>Foreign Currency: (In millions)</b>		
Euro	\$ 564.0	\$ 460.3
Canadian dollar	17.2	24.0
Swedish krona	7.3	9.9
Total foreign currency forward contracts	\$ 588.5	\$ 494.2

The portion of the fair value of these foreign currency forward contracts that was included in accumulated other comprehensive income (loss) within total equity reflected net losses of \$30.4 million and \$11.0 million as of March 31, 2011 and December 31, 2010, respectively. We expect all contracts to be settled over the next 12 months and any amounts in accumulated other comprehensive income (loss) to be reported as an adjustment to revenue. We consider the impact of our and our counterparties' credit risk on the fair value of the contracts as well as the ability of each party to execute its obligations under the contract. As of March 31, 2011 and December 31, 2010, credit risk did not materially change the fair value of our foreign currency forward contracts.

In relation to our foreign currency forward contracts, we recognized in other income (expense), net gains of \$0.8 million and \$0.1 million for the three months ended March 31, 2011 and 2010, respectively, due to hedge ineffectiveness.

In addition, we recognized in product revenue a net loss of \$8.3 million and a net gain of \$0.2 million for the three months ended March 31, 2011 and 2010, respectively, for the settlement of certain effective cash flow hedge instruments. These settlements were recorded in the same period as the related forecasted revenue.

Table of Contents**BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)**Summary of Derivatives Designated as Hedging Instruments*

The following table summarizes the fair value and presentation in our condensed consolidated balance sheets for derivatives designated as hedging instruments:

<b>(In millions)</b>	<b>Balance Sheet Location</b>	<b>Fair Value As of March 31, 2011</b>
<i>Foreign Currency Contracts</i>		
Asset derivatives	Other current assets	\$
Liability derivatives	Accrued expenses and other	\$ 29.6

<b>(In millions)</b>	<b>Balance Sheet Location</b>	<b>Fair Value As of December 31, 2010</b>
<i>Foreign Currency Contracts</i>		
Asset derivatives	Other current assets	\$
Liability derivatives	Accrued expenses and other	\$ 11.0

The following table summarizes the effect of derivatives designated as hedging instruments within our condensed consolidated statements of income:

<b>(In millions)</b>	<b>Amount Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative Gain/(Loss) (Effective Portion)</b>	<b>Income Statement Location</b>	<b>Amount Reclassified from Accumulated Other Comprehensive Income (Loss) into Income Gain/(Loss) (Effective Portion)</b>	<b>Income Statement Location</b>	<b>Amount of Gain/(Loss) Recorded (Ineffective Portion)</b>
<b>For the Three Months Ended March 31, 2011:</b>	\$ (30.4)	Revenue	\$ (8.3)	Other income (expense)	\$ 0.8

Foreign currency contracts

**March 31, 2010:**

Foreign currency contracts

\$ 32.0	Revenue	\$ 0.2	Other income (expense)	\$ 0.1
---------	---------	--------	---------------------------	--------

***Other Derivatives***

We also enter into other foreign currency forward contracts, usually with one month durations, to mitigate the foreign currency risk related to certain balance sheet positions. We have not elected hedge accounting for these transactions.

The aggregate notional amount of our outstanding foreign currency contracts was \$176.5 million as of March 31, 2011. The fair value of these contracts was a net liability of \$2.3 million. Net losses of \$4.9 million related to these contracts were recognized as a component of other income (expense), net, for the three months ended March 31, 2011.

**11. Property, Plant and Equipment**

Property, plant and equipment are recorded at historical cost, net of accumulated depreciation. Accumulated depreciation on property, plant and equipment was \$789.9 million and \$767.2 million as of March 31, 2011 and December 31, 2010, respectively.

**Table of Contents**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, continued)*

***San Diego Facility***

On October 1, 2010, we sold the San Diego facility for cash proceeds, net of transaction costs, of approximately \$127.0 million. As part of this transaction, we agreed to lease back the San Diego facility for a period of 15 months. We are accounting for this transaction as a financing arrangement as we have determined that the transaction does not qualify as a sale due to our continuing involvement under the leaseback terms. Accordingly, we recorded an obligation for the proceeds received in October and the facility assets remain classified as held for use and the carrying value of the facility remains reflected as a component of property, plant and equipment, net within our condensed consolidated balance sheets as of March 31, 2011 and December 31, 2010. Our remaining obligation, which is reflected as a component of current portion of notes payable, line of credit and other financing arrangements within our condensed consolidated balance sheets, was \$125.0 million and \$125.9 million as of March 31, 2011 and December 31, 2010, respectively. We have not recognized a loss or impairment charge related to the San Diego facility.

In January 2011, we entered into an agreement to terminate our 15 month lease of the San Diego facility on August 31, 2011 and will have no continuing involvement or remaining obligation after that date. Once the lease arrangement has concluded we will account for the San Diego facility as a sale of property.

**12. Equity**

***Preferred Stock***

In March 2011, 8,221 shares of our Series A Preferred Stock, which represented all preferred shares outstanding, were converted into shares of common stock by the holder pursuant to the conversion terms of the Series A Preferred Stock. As a result we issued 493,260 shares of common stock and no other shares of Preferred Stock remain issued and outstanding as of March 31, 2011.

***Share Repurchases***

In February 2011, our Board of Directors authorized the repurchase of up to 20 million shares of our common stock. We expect to use this repurchase program principally to offset common stock issuance under our share-based compensation plans. This repurchase program does not have an expiration date. Under this authorization, we repurchased approximately 2.8 million shares of our common stock at a cost of \$195.3 million during the first quarter of 2011. From April 1, 2011 through April 21, 2011, we repurchased an additional 1.0 million shares under this program at a total cost of \$75.7 million. Approximately 16.2 million shares remain available for repurchase under the 2011 repurchase program.

For the three months ended March 31, 2010, we repurchased approximately 10.5 million shares at a cost of approximately \$557.6 million under our 2009 stock repurchase authorization. We retired all of these shares as they were acquired. In connection with this retirement, in accordance with our policy, we recorded a reduction in additional paid-in-capital by the same amount.

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)***13. Comprehensive Income**

The following tables reflect the activity in comprehensive income included within equity attributable to the shareholders of Biogen Idec, equity attributable to noncontrolling interests, and total equity:

(In millions)	For the Three Months Ended March 31, 2011			For the Three Months Ended March 31, 2010		
	Biogen Idec Shareholders Equity	Noncontrolling Interests	Total Equity	Biogen Idec Shareholders Equity	Noncontrolling Interests	Total Equity
Comprehensive income:						
Net income	\$ 294.3	\$ 14.4	\$ 308.7	\$ 217.4	\$ 2.6	\$ 220.0
Unrealized gains (losses) on securities available for sale	(11.8)		(11.8)	(2.9)		(2.9)
Unrealized gains (losses) on foreign currency forward contracts	(17.4)		(17.4)	27.9		27.9
Unrealized gains (losses) on pension benefit obligations				(0.1)		(0.1)
Currency translation adjustment	49.8	2.8	52.6	(52.4)	(2.6)	(55.0)
Total comprehensive income	\$ 314.9	\$ 17.2	\$ 332.1	\$ 189.9	\$	\$ 189.9

Unrealized holding gains (losses) on securities available for sale are shown net of tax of \$6.9 million for the three months ended March 31, 2011, compared to \$1.7 million in the prior year comparative period.

Unrealized gains (losses) on foreign currency forward contracts are shown net of tax of \$2.0 million for the three months ended March 31, 2011, compared to \$3.0 million in the prior year comparative period.

Unrealized gains (losses) on pension benefit obligations are shown net of tax as of March 31, 2011 and 2010. The effect of income taxes was negligible for both periods.

The following table reconciles equity attributable to noncontrolling interests:

(In millions)	For the Three Months Ended March 31,	
	2011	2010
Noncontrolling interests, beginning of period	\$ 52.9	\$ 40.4
Net income (loss) attributable to noncontrolling interests	14.4	2.6



Edgar Filing: Sears Holdings CORP - Form 425

Currency translation adjustment	2.8	(2.6)
Distributions to noncontrolling interests		
Capital contributions from noncontrolling interests		0.8
Noncontrolling interests, end of period	\$ 70.1	\$ 41.2

Total distributions to us from our joint ventures were negligible for the three months ended March 31, 2011 and 2010.

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)***14. Earnings per Share**

Basic and diluted earnings per share are calculated as follows:

<b>(In millions)</b>	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Numerator:		
Net income attributable to Biogen Idec Inc	\$ 294.3	\$ 217.4
Adjustment for net income allocable to preferred stock	(0.5)	(0.4)
Net income used in calculating basic and diluted earnings per share	\$ 293.8	\$ 217.0
Denominator:		
Weighted average number of common shares outstanding	241.5	269.9
Effect of dilutive securities:		
Stock options and employee stock purchase plan	1.2	1.1
Time-vested restricted stock units	1.6	1.7
Market stock units	0.2	
Performance-vested restricted stock units settled in shares		
Dilutive potential common shares	3.0	2.8
Shares used in calculating diluted earnings per share	244.5	272.7

The following amounts were not included in the calculation of net income per diluted share because their effects were anti-dilutive:

<b>(In millions)</b>	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Numerator:		
Net income allocable to preferred stock	\$ 0.5	\$ 0.4
Denominator:		
Stock options	0.6	5.0
Time-vested restricted stock units		0.7
Market stock units		
Performance-vested restricted stock units settled in shares		

Convertible preferred stock	0.4	0.5
Total	1.0	6.2

Table of Contents**BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)***15. Share-based Payments**

We grant stock options and restricted stock units to employees, officers, and directors under our current stock plan. The following table presents grants of stock options and restricted stock units:

	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Stock options		120,000
Market stock units(a)	363,000	333,000
Cash settled performance shares(b)	467,000	370,000
Time-vested restricted stock units	1,220,000	1,600,000
Performance-vested restricted stock units(c)	1,000	4,000

- (a) Market stock units (MSUs) granted for the three months ended March 31, 2010, represents target number of shares eligible to be earned at the time of grant.

MSUs granted for the three months ended March 31, 2011, includes approximately 347,000 MSUs granted in connection with our annual awards made in February 2011, representing the target number of shares eligible to be earned at the time of grant, and 16,000 additional MSUs issued in 2011 based upon the attainment of performance criteria set for 2010 in relation to shares granted in 2010.

- (b) Cash settled performance shares (CSPSs) granted for the three months ended March 31, 2010, represents target number of shares eligible to be earned at the time of grant.

CSPSs granted for the three months ended March 31, 2011, includes approximately 379,000 CSPSs granted in connection with our annual awards made in February 2011, representing the target number of shares eligible to be earned at the time of grant, and approximately 88,000 additional CSPSs issued in 2011 based upon the attainment of performance criteria set for 2010 in relation to shares granted in 2010.

- (c) Performance-vested restricted stock units (PVRsUs) granted for the three months ended March 31, 2010, represents target number of shares eligible to be earned at the time of grant; approximately 1,000 additional PVRsUs were issued in 2011 based upon the attainment of performance criteria set for 2010 in relation to shares granted in 2010.

In addition, for the three months ended March 31, 2011, approximately 185,000 shares were issued under the ESPP compared to approximately 200,000 shares issued in the prior year comparative period.

The following table summarizes share-based compensation expense included within our condensed consolidated statements of income:

(In millions)	For the Three Months Ended March 31,	
	2011	2010
Research and development	\$ 19.1	\$ 16.7
Selling, general and administrative	20.7	36.2
Restructuring charges	(0.6)	
Subtotal	39.2	52.9
Capitalized share-based compensation costs	(1.0)	(0.9)
Share-based compensation expense included in total costs and expenses	38.2	52.0
Income tax effect	(12.0)	(16.7)
Share-based compensation expense included in net income attributable to Biogen Idec Inc	\$ 26.2	\$ 35.3

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)*

The following table summarizes share-based compensation expense associated with each of our share-based compensation programs:

<b>(In millions)</b>	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Stock options	\$ 1.1	\$ 10.8
Market stock units	3.5	3.6
Time-vested restricted stock units	27.9	33.5
Performance-vested restricted stock units settled in shares	0.4	2.4
Cash settled performance shares	4.8	1.0
Employee stock purchase plan	1.5	1.6
Subtotal	\$ 39.2	\$ 52.9
Capitalized share-based compensation costs	(1.0)	(0.9)
Share-based compensation expense included in total costs and expenses	\$ 38.2	\$ 52.0

**16. Income Taxes**

For the three months ended March 31, 2011, our effective tax rate was 27.6%, compared to 25.5% in the prior year comparative period.

The increase in our tax rate for the three months ended March 31, 2011, compared to the same period in 2010, was primarily a result of an increased percentage of our 2011 profits being earned in higher tax rate jurisdictions, principally the U.S., due in part to our 2010 restructuring initiative. In addition, a 2010 reorganization of certain of our international operations also resulted in a benefit in the first quarter of 2010, the period of reorganization. These factors were partially offset by the 2011 settlement of an outstanding IRS audit matter and an increase in research and development expenses eligible for orphan drug credit.

Reconciliation between the U.S. federal statutory tax rate and our effective tax rate is summarized as follows:

	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Statutory rate	35.0%	35.0%
State taxes	2.4	1.9
Taxes on foreign earnings	(5.5)	(9.8)

Credits and net operating loss utilization	(2.1)	(1.6)
Purchased intangible assets	1.4	1.5
IPR&D		0.8
Permanent items	(1.3)	(1.6)
Other	(2.3)	(0.7)
Effective tax rate	27.6%	25.5%

*Accounting for Uncertainty in Income Taxes*

We and our subsidiaries are routinely examined by various taxing authorities. We file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, we are no

**Table of Contents**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, continued)*

longer subject to U.S. federal tax examination for years before 2007 or state, local, or non-U.S. income tax examinations by tax authorities for years before 2001.

*Contingency*

In 2006, the Massachusetts Department of Revenue (DOR) issued a Notice of Assessment against Biogen Idec MA Inc. (BIMA), one of our wholly-owned subsidiaries, for \$38.9 million of corporate excise tax for 2002, which includes associated interest and penalties. The assessment asserts that the portion of sales attributable to Massachusetts (sales factor), the computation of BIMA's research and development credits and certain deductions claimed by BIMA were not appropriate, resulting in unpaid taxes for 2002. In December 2006, we filed an abatement application with the DOR seeking abatement for 2001, 2002 and 2003, which was denied. In July 2007, we filed a petition with the Massachusetts Appellate Tax Board (the Massachusetts ATB) seeking, among other items, abatements of corporate excise tax for 2001, 2002 and 2003 and adjustments in certain credits and credit carryforwards for 2001, 2002 and 2003. Issues before the Board include the computation of BIMA's sales factor for 2001, 2002 and 2003, computation of BIMA's research credits for those same years, and the availability of deductions for certain expenses and partnership flow-through items. The Massachusetts ATB has ordered the hearing on our petition to begin on June 14, 2011.

On June 8, 2010, we received Notices of Assessment from the DOR against BIMA for \$103.5 million of corporate excise tax, including associated interest and penalties, related to our 2004, 2005 and 2006 tax filings. The asserted basis for these assessments is consistent with that for 2002. Including associated interest and penalties, assessments related to periods under dispute total \$142.4 million. In August 2010, we filed an abatement application with the DOR seeking abatement for 2004, 2005 and 2006, which the DOR denied in December 2010. We filed a petition appealing the denial with the Massachusetts ATB on February 3, 2011. For all periods under dispute, we believe that positions taken in our tax filings are valid and believe that we have meritorious defenses in these disputes. We are contesting these matters vigorously.

Our tax filings for 2007 and 2008 have not yet been audited by the DOR but have been prepared in a manner consistent with prior filings which may result in an assessment for those years. Due to tax law changes effective January 1, 2009, the computation and deductions at issue in previous tax filings have not been part of our tax filings in Massachusetts starting in 2009.

We believe that these assessments do not impact the level of liabilities for income tax contingencies. However, there is a possibility that we may not prevail in defending all of our assertions with the DOR. If these matters are resolved unfavorably in the future, the resolution could have a material adverse impact on the effective tax rate and our results of operations.



Table of Contents**BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)***17. Other Consolidated Financial Statement Detail***Other Income (Expense), Net*

Components of other income (expense), net, are summarized as follows:

<b>(In millions)</b>	<b>For the Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Interest income	\$ 3.7	\$ 8.9
Interest expense	(9.2)	(8.3)
Impairments of investments	(1.2)	(15.8)
Foreign exchange gains (losses), net	(0.4)	1.0
Gain (loss) on sales of investments, net	15.3	5.0
Other, net	1.8	0.8
Total other income (expense), net	\$ 10.0	\$ (8.4)

*Other Current Assets*

Other current assets consist of the following:

<b>(In millions)</b>	<b>As of</b>	<b>As of</b>
	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Deferred tax assets	\$ 66.8	\$ 112.2
Prepaid taxes	22.9	31.4
Receivable from collaborations	7.7	7.3
Interest receivable	4.3	4.9
Other prepaid expenses	60.1	47.9
Other	24.5	12.1
Total other current assets	\$ 186.3	\$ 215.8

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)****Accrued Expenses and Other***

Accrued expenses and other consists of the following:

<b>(In millions)</b>	<b>As of March 31, 2011</b>	<b>As of December 31, 2010</b>
Employee compensation and benefits	\$ 110.4	\$ 159.7
Revenue-related rebates	122.9	105.3
Restructuring charges	20.5	66.4
Royalties and licensing fees	42.6	45.1
Deferred revenue	47.4	41.3
Collaboration expenses	45.2	31.6
Clinical development expenses	24.3	24.4
Interest payable	5.5	21.6
Construction in progress accrual	9.1	16.4
Current portion of contingent consideration	4.9	11.9
Other	158.6	142.2
Total accrued expense and other	\$ 591.4	\$ 665.9

For a discussion of restructuring charges accrued as of March 31, 2011 and December 31, 2010, please read Note 3, *Restructuring*, to our consolidated financial statements included in this report.

**18. Investments in Variable Interest Entities*****Consolidated Variable Interest Entities***

Our condensed consolidated financial statements include the financial results of variable interest entities in which we are the primary beneficiary.

***Investments in Joint Ventures***

We consolidate the operations of Biogen Dompé SRL and Biogen Dompé Switzerland GmbH, our respective sales affiliates in Italy and Switzerland, as we retain the contractual power to direct the activities of these entities which most significantly and directly impact their economic performance. The activity of each of these joint ventures is significant to our overall operations. The assets of these joint ventures are restricted, from the standpoint of Biogen Idec, in that they are not available for our general business use outside the context of each joint venture. The holders of the liabilities of each joint venture, including the credit line from Dompé described in our 2010 Form 10-K, have no recourse to Biogen Idec.

The following table summarizes total joint venture assets and liabilities:

<b>(In millions)</b>	<b>As of March 31, 2011</b>	<b>As of December 31, 2010</b>
Assets	\$ 184.8	\$ 159.2
Liabilities	\$ 74.5	\$ 63.3

The joint venture's most significant assets are accounts receivable from the ordinary course of business. As of March 31, 2011, accounts receivable held by our joint ventures totaled \$146.4 million, of which \$141.3 million were related to Biogen Dompé SRL, compared to total accounts receivable of \$124.2 million

**Table of Contents**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, continued)*

as of December 31, 2010, of which \$118.0 million were related to Biogen Dompé SRL. For additional information related to our accounts receivable balances in Italy, please read Note 5, *Accounts Receivable* to these condensed consolidated financial statements.

Other than the line of credit from us and Dompé Farmaceutici SpA to Biogen-Dompé SRL, as described in Note 11, *Indebtedness* to our consolidated financial statements included within our 2010 Form 10-K, we have provided no financing to these joint ventures. In addition, Biogen-Dompé SRL has an operating lease for office space as well as a contract for the provision of administrative services with Dompé Farmaceutici SpA.

*Knopp*

In August 2010, we entered into a license agreement with Knopp Neurosciences, Inc. (Knopp), a subsidiary of Knopp Holdings, LLC, for the development, manufacture and commercialization of dextramipexole, an orally administered small molecule in clinical development for the treatment of amyotrophic lateral sclerosis (ALS). We are responsible for all development activities and, if successful, we will also be responsible for the manufacture and global commercialization of dextramipexole. Under the terms of the license agreement we made a \$26.4 million upfront payment and agreed to pay Knopp up to an additional \$265.0 million in development and sales-based milestone payments, as well as royalties on future commercial sales. In addition, we also purchased 30.0% of the Class B common shares of Knopp for \$60.0 million.

Due to the terms of the license agreement and our investment in Knopp, we determined that we are the primary beneficiary of Knopp as we have the power to direct the activities that most significantly impact Knopp's economic performance. As such, we consolidate the results of Knopp. Although we have assumed responsibility for the development of dextramipexole, we may also be required to reimburse certain Knopp expenses directly attributable to the license agreement. Any additional amounts incurred by Knopp that we reimburse will be reflected within total costs and expenses in our consolidated statements of income. Future development and sales-based milestone payments will be reflected within our consolidated income statement as charges to noncontrolling interests when such milestones are achieved.

In March 2011, we dosed the first patient in a registrational study for dextramipexole. The achievement of this milestone resulted in a \$10.0 million payment due to Knopp. As we consolidate Knopp, we recognized this payment as a charge to noncontrolling interests in the first quarter of 2011.

For the three months ended March 31, 2011, the collaboration incurred \$5.7 million of expense related to the development of dextramipexole, which is reflected as research and development expense within our condensed consolidated statement of income. The assets and liabilities of Knopp are not significant to our financial position or results of operations. We have provided no financing to Knopp other than previously contractually required amounts disclosed above.

*Neurimmune SubOne AG*

In 2007, we entered into a collaboration agreement with Neurimmune SubOne AG (Neurimmune), a subsidiary of Neurimmune AG, for the development and commercialization of antibodies for the treatment of Alzheimer's disease. Neurimmune conducts research to identify potential therapeutic antibodies and we are responsible for the

development, manufacturing and commercialization of all products. Based upon our current development plans, we may pay Neurimmune up to \$360.0 million in remaining milestone payments, as well as royalties on sales of any resulting commercial products.

We determined that we are the primary beneficiary of Neurimmune because we have the power through the collaboration to direct the activities that most significantly impact SubOne's economic performance and are required to fund 100% of the research and development costs incurred in support of the collaboration agreement. Amounts that are incurred by Neurimmune for research and development expenses in support of

**Table of Contents**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, continued)*

the collaboration that we reimburse are reflected in research and development expense in our consolidated statements of income. Future milestone payments will be reflected within our consolidated statements of income as a charge to the noncontrolling interest when such milestones are achieved.

For the three months ended March 31, 2011 and 2010, the collaboration incurred development expense totaling \$1.8 million and \$5.1 million, respectively, which is reflected as research and development expense within our condensed consolidated statements of income. The assets and liabilities of Neurimmune are not significant as it is a research and development organization. We have provided no financing to Neurimmune other than previously contractually required amounts disclosed above.

In April 2011, we submitted an Investigational New Drug (IND) application for beta-amyloid removal therapy (BART), which triggered a \$15.0 million milestone payment due to Neurimmune. BART is being developed for the treatment of Alzheimer's disease. As we consolidate Neurimmune, we will recognize this payment as a charge to noncontrolling interests in the second quarter of 2011.

***Unconsolidated Variable Interest Entities***

We have relationships with other variable interest entities which we do not consolidate as we lack the power to direct the activities that significantly impact the economic success of these entities. These relationships include investments in certain biotechnology companies and research collaboration agreements. For additional information related to our significant collaboration arrangements, please read Note 19, *Collaborations* to our consolidated financial statements included within our 2010 Form 10-K.

As of March 31, 2011 and December 31, 2010, the total carrying value of our investments in biotechnology companies that we determined to be variable interest entities and which are not consolidated were \$24.0 million and \$22.9 million, respectively. Our maximum exposure to loss related to these variable interest entities is limited to the carrying value of our investments.

We have entered into research collaborations with certain variable interest entities where we are required to fund certain development activities. These development activities are included in research and development expense within our consolidated statements of income as they are incurred. Depending on the collaborative arrangement, we may record funding receivables or payable balances with our partners, based on the nature of the cost-sharing mechanism and activity within the collaboration. As of March 31, 2011 and December 31, 2010, we had no significant receivables or payables related to cost sharing arrangements with unconsolidated variable interest entities.

We have provided no financing to these variable interest entities other than previously contractually required amounts.

**19. Litigation**

***Massachusetts Department of Revenue***

In 2006, the Massachusetts Department of Revenue (DOR) issued a Notice of Assessment against BIMA for \$38.9 million of corporate excise tax for 2002, which includes associated interest and penalties. The assessment asserts that the portion of sales attributable to Massachusetts (sales factor), the computation of BIMA's research and

development credits and certain deductions claimed by BIMA were not appropriate, resulting in unpaid taxes for 2002. On December 6, 2006, we filed an abatement application with the DOR seeking abatements for 2001, 2002 and 2003. The abatement application was denied on July 24, 2007. On July 25, 2007, we filed a petition with the Massachusetts Appellate Tax Board (the Massachusetts ATB) seeking, among other items, abatements of corporate excise tax for 2001, 2002 and 2003 and adjustments in

**Table of Contents**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, continued)*

certain credits and credit carry forwards for 2001, 2002 and 2003. Issues before the Board include the computation of BIMA's sales factor for 2001, 2002 and 2003, computation of BIMA's research credits for those same years, and the availability of deductions for certain expenses and partnership flow-through items. The Massachusetts ATB has ordered the hearing on our petition to begin on June 14, 2011.

On June 8, 2010, we received Notices of Assessment from the DOR against BIMA for \$103.5 million of corporate excise tax, including associated interest and penalties, related to our 2004, 2005 and 2006 tax filings. The asserted basis for these assessments is consistent with that for 2002. On August 5, 2010, we filed an abatement application with the DOR seeking abatements for 2004, 2005, and 2006, which the DOR denied on December 15, 2010. We filed a petition appealing the denial with the Massachusetts ATB on February 3, 2011. For all periods under dispute, we believe that positions taken in our tax filings are valid and believe that we have meritorious defenses in these disputes. We are contesting these matters vigorously.

***Hoechst Genentech Arbitration***

On October 24, 2008, Hoechst GmbH filed with the ICC International Court of Arbitration (Paris) a request for arbitration against Genentech, relating to a terminated license agreement (the Hoechst License) between Hoechst's predecessor and Genentech granting Genentech certain rights with respect to U.S. Patents 5,849,522 (522 patent) and 6,218,140 (140 patent) and related patents outside the U.S. Although we are not a party to the arbitration, any damages awarded to Hoechst based on U.S. net sales of RITUXAN may be a cost charged to our collaboration with Genentech. The license was entered as of January 1, 1991 and was terminated by Genentech on October 27, 2008. We understand that Hoechst seeks payment of royalties on sales of Genentech products, including RITUXAN, damages for breach of contract, and other relief. We estimate, based solely on our understanding of Hoechst's claims and not on any evaluation of the merits of the claims, that royalties and interest, if awarded in connection with U.S. net sales of RITUXAN, could total \$100 million based on the 0.5% royalty rate set forth in the agreement and historical RITUXAN net sales. Although we are not a party to the arbitration, any damages awarded to Hoechst based on U.S. sales of RITUXAN may be a cost charged to our collaboration with Genentech.

***Sanofi 522 and 140 Patent Litigation***

On October 27, 2008, Sanofi-Aventis Deutschland GmbH (Sanofi), successor to Hoechst, filed suit against Genentech and Biogen Idec in federal court in Texas (E.D. Tex.) (Texas Action) claiming that RITUXAN and certain other Genentech products infringe the 522 patent and the 140 patent. The patents are due to expire in December 2015. Sanofi seeks preliminary and permanent injunctions, compensatory and exemplary damages, and other relief. The same day Genentech and Biogen Idec filed a complaint against Sanofi in federal court in California (N.D. Cal.) (California Action) seeking a declaratory judgment that RITUXAN and other Genentech products do not infringe the 522 patent or the 140 patent and a declaratory judgment that those patents are invalid. The Texas Action was ordered transferred to the federal court in the Northern District of California and consolidated with the California Action and we refer to the two actions together as the Consolidated Sanofi Patent Actions. On March 7, 2011, the court granted Biogen Idec's and Genentech's motion for summary judgment in the Consolidated Sanofi Patent Actions on the grounds that RITUXAN does not infringe the 522 patent or the 140 patent. The court has ordered a trial to begin on June 13, 2011 on the remaining claims, including Biogen Idec's and Genentech's invalidity claims. We have not formed an opinion that an unfavorable outcome on the invalidity claims in the Consolidated Sanofi Patent Actions or in any appeal by Sanofi of non-infringement ruling is either probable or remote. We believe that we have good and valid



defenses and are vigorously defending against the allegations. In the event that we and Genentech are found liable we estimate that the range of any potential loss could extend to a royalty of up to 0.5% of net sales of RITUXAN, based on, among other things, the royalty rate set forth in the terminated Hoechst License and an analysis of royalty rates charged for comparable technologies. We believe that Sanofi would seek a

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(unaudited, continued)*

substantially higher royalty rate, and we will continue to vigorously oppose its claims and position. One of the issues to be resolved in the Consolidated Sanofi Patent Actions is whether any award of reasonable royalty damages would begin running from October 27, 2008, when Genentech terminated the Hoechst License, or from October 27, 2002, six years before Sanofi filed the Texas Action, the statutory limitations period for damages in patent cases. In the event that Genentech is ordered in the arbitration described above to pay royalties on RITUXAN sales under the Hoechst License up to the date of the termination of the Hoechst License (October 27, 2008), we do not anticipate that either we or Genentech would be subject to any damages award in the Consolidated Sanofi Patent Actions for any period before October 27, 2008. Any damages awarded to Sanofi based on U.S. net sales of RITUXAN may be a cost charged to our collaboration with Genentech.

***755 Patent Litigation***

On September 15, 2009, we were issued U.S. patent No. 7,588,755 ( 755 Patent), which claims the use of interferon beta for immunomodulation or treating a viral condition, viral disease, cancers or tumors. This patent, which expires in September 2026, covers, among other things, the treatment of MS with our product AVONEX. On May 27, 2010, Bayer Healthcare Pharmaceuticals Inc. (Bayer) filed a lawsuit against us in federal court in the District of New Jersey seeking a declaratory judgment of patent invalidity and noninfringement and seeking monetary relief in the form of attorneys' fees, costs and expenses. On May 28, 2010, BIMA filed a lawsuit in federal court in the District of New Jersey alleging infringement of the 755 Patent by EMD Serono, Inc. (manufacturer, marketer and seller of REBIF), Pfizer, Inc. (co-marketer of REBIF), Bayer (manufacturer, marketer and seller of BETASERON and manufacturer of EXTAVIA), and Novartis Pharmaceuticals Corp. (marketer and seller of EXTAVIA) and seeking monetary damages, including lost profits and royalties. The court has consolidated the two lawsuits, and we refer to the two actions as the Consolidated 755 Patent Actions. On August 16, 2010, BIMA amended its complaint to add Ares Trading S.A. (Ares), an affiliate of EMD Serono, as a defendant, and to seek a declaratory judgment that a purported nonsuit and option agreement between Ares and BIMA dated October 12, 2000, that purports to provide that Ares will have an option to obtain a license to the 755 Patent, is not a valid and enforceable agreement or, alternatively, has been revoked and/or terminated by the actions of Ares or its affiliates. Ares has answered the amended complaint and has moved to compel arbitration of the claims against it, which we have opposed, and Ares' motion is pending. Ares has also filed a Notice of Arbitration, which we have opposed. Bayer, Pfizer, Novartis and EMD Serono have all filed counterclaims in the Consolidated 755 Patent Actions seeking declaratory judgments of patent invalidity and noninfringement, and seeking monetary relief in the form of costs and attorneys' fees, and EMD Serono and Bayer have filed a counterclaim seeking a declaratory judgment that the 755 Patent is unenforceable based on alleged inequitable conduct. Bayer has also amended its complaint to seek such a declaration.

***GSK 612 Patent Litigation***

On March 23, 2010, we and Genentech were issued U.S. Patent No. 7,682,612 ( 612 patent) relating to a method of treating CLL using an anti-CD20 antibody. The patent which expires in November 2019 covers, among other things, the treatment of CLL with RITUXAN. On March 23, 2010, we filed a lawsuit in federal court in the Southern District of California against Glaxo Group Limited and GlaxoSmithKline LLC (collectively, GSK) alleging infringement of that patent based upon GSK's manufacture, marketing and sale, offer to sell, and importation of ARZERRA. We seek damages, including a royalty and lost profits, and injunctive relief. GSK has filed a counterclaim seeking a declaratory judgment of patent invalidity, noninfringement, unenforceability, and inequitable conduct, and seeking monetary relief in the form of costs and attorneys' fees.

***Novartis V&D 688 Patent Litigation***

On January 26, 2011, Novartis Vaccines and Diagnostics, Inc. (Novartis V&D) filed suit against us in federal district court in Delaware, alleging that TYSABRI infringes U.S. Patent No. 5,688,688 *Vector for*

**Table of Contents**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited, continued)*

*Expression of a Polypeptide in a Mammalian Cell* ( 688 patent), which was granted in November 1997 and expires in November 2014. Novartis V&D seeks a declaration of infringement, a finding of willful infringement, compensatory damages, treble damages, interest, costs and attorneys fees. We have not formed an opinion that an unfavorable outcome is either probable or remote, and are unable to estimate the magnitude or range of any potential loss. We believe that we have good and valid defenses to the complaint and will vigorously defend against it.

***Product Liability and Other Legal Proceedings***

We are also involved in product liability claims and other legal proceedings generally incidental to our normal business activities. While the outcome of any of these proceedings cannot be accurately predicted, we do not believe the ultimate resolution of any of these existing matters would have a material adverse effect on our business or financial conditions.

**20. Segment Information**

We operate as one business segment, which is the business of discovering, developing, manufacturing and marketing products for the treatment of serious diseases with a focus on neurological disorders and therefore, our chief operating decision-maker manages the operations of our Company as a single operating segment.

**21. New Accounting Pronouncements**

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

In January 2010, we adopted a newly issued accounting standard which requires additional disclosure about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. In addition, effective for interim and annual periods beginning after December 15, 2010, which for us is January 1, 2011, this standard further requires an entity to present disaggregated information about activity in Level 3 fair value measurements on a gross basis, rather than as one net amount. As this accounting standard only requires enhanced disclosure, the adoption of this newly issued accounting standard did not impact our financial position or results of operations.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with our condensed consolidated financial statements and accompanying notes beginning on page 4 of this quarterly report on Form 10-Q and our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K).

**Executive Summary****Introduction**

Biogen Idec is a global biotechnology company focused on discovering, developing, manufacturing and marketing products for the treatment of serious diseases with a focus on neurological disorders. We currently have four marketed products: AVONEX, RITUXAN, TYSABRI, and FUMADERM. Our marketed products are used for the treatment of multiple sclerosis (MS), non-Hodgkin's lymphoma (NHL), rheumatoid arthritis (RA), Crohn's disease, chronic lymphocytic leukemia (CLL), and psoriasis.

In the near term, our current and future revenues are dependent upon continued sales of our three principal products, AVONEX, RITUXAN and TYSABRI. In the longer term, our revenue growth will be dependent upon the successful pursuit of external business development opportunities and clinical development, regulatory approval and launch of new commercial products as well as upon our ability to protect our patents related to our marketed products and assets originating from our research and development efforts. As part of our ongoing research and development efforts, we have devoted significant resources to conducting clinical studies to advance the development of new pharmaceutical products and to explore the utility of our existing products in treating disorders beyond those currently approved in their labels.

In November 2010, we announced a number of strategic, operational and organizational initiatives, which are described below under the heading *Restructuring Charge*. We expect to incur charges totaling approximately \$110.0 million associated with the implementation of these initiatives of which \$75.2 million was incurred in 2010 and the remainder is anticipated to be substantially incurred by the end of 2011.

**Financial Highlights**

The following table is a summary of financial results achieved:

(In millions, except per share amounts and percentages)	For the Three Months Ended March 31,		Change %
	2011(1)	2010(2)	
Total revenues	\$ 1,203.3	\$ 1,108.9	8.5%
Income from operations	\$ 416.3	\$ 303.7	37.1%
Net income attributable to Biogen Idec Inc.	\$ 294.3	\$ 217.4	35.4%
Diluted earnings per share attributable to Biogen Idec Inc	\$ 1.20	\$ 0.80	50.4%

(1)

Income from operations, as well as net income attributable to Biogen Idec Inc. for the three months ended March 31, 2011, was reduced by the \$16.6 million restructuring charge recognized during the first quarter of 2011.

- (2) Income from operations, as well as net income attributable to Biogen Idec Inc. for the three months ended March 31, 2010, were reduced by an approximately \$40.0 million charge to acquired in-process research and development (IPR&D) related to the achievement of a milestone by Biogen Idec Hemophilia, Inc. (formerly Syntonix Pharmaceuticals, Inc.).

**Table of Contents**

As described below under *Results of Operations*, our operating results for the three months ended March 31, 2011 reflect the following:

Worldwide AVONEX revenues totaled \$642.5 million in the first quarter of 2011, representing an increase of 8.4% over the same period in 2010.

Our share of TYSABRI revenues totaled \$251.4 million in the first quarter of 2011, representing an increase of 15.0% over the same period in 2010.

Our share of RITUXAN revenues totaled \$256.1 million in the first quarter of 2011, remaining essentially flat in comparison to the same period in 2010. Our share of co-promotion profits in the U.S. totaled \$221.9 million representing an increase of 10.8% over 2010. This increase was offset by royalty expirations in our rest of world markets and a decrease in selling and development expenses incurred by us and reimbursed by Genentech, which are also included within our total unconsolidated joint business revenues.

Total cost and expenses decreased 2.2% in the first quarter of 2011, compared to the same period in 2010, reflecting our efforts to become a more efficient and cost-effective organization. Research and development expense and selling, general and administrative costs decreased 4.4% and 1.7%, respectively, for the three months ended March 31, 2011, from the same period in 2010. These decreases were offset by the \$16.6 million restructuring charge recognized during the first quarter of 2011 as well as a 17.7% increase in collaboration profit sharing expense due to TYSABRI revenue growth. In addition, total cost and expenses for the three months ended March 31, 2010 included an IPR&D charge of \$40.0 million related to the achievement of a milestone by Biogen Idec Hemophilia, Inc.

We generated \$272.6 million of net cash flow from operations for the three months ended March 31, 2011, which was primarily driven by earnings. Cash and cash equivalents and marketable securities totaled approximately \$2,114.0 million as of March 31, 2011.

In February 2011, our Board of Directors authorized the repurchase of up to 20 million shares of our common stock. We expect to use this repurchase program principally to offset common stock issuance under our share-based compensation plans. This repurchase program does not have an expiration date. Under this authorization, we repurchased approximately 2.8 million shares of our common stock at a cost of \$195.3 million during the first quarter of 2011. From April 1, 2011 through April 21, 2011, we repurchased an additional 1.0 million shares under this program at a total cost of \$75.7 million. Approximately 16.2 million shares remain available for repurchase under the 2011 repurchase program.

***Business Environment***

We conduct our business primarily within the biotechnology and pharmaceutical industries, which are highly competitive. Many of our competitors are working to develop products similar to those we are developing or already market. For example, along with us, a number of companies are working to develop additional treatments for MS that may compete with AVONEX and TYSABRI, including oral and other alternative formulations. In addition, the commercialization of certain of our own pipeline product candidates, such as BG-12 (dimethyl fumarate), may also negatively impact future sales of AVONEX and TYSABRI. We may also face increased competitive pressures as a result of the emergence of biosimilars. In the U.S., AVONEX, RITUXAN and TYSABRI are licensed under the Public Health Service Act (PHSA) as biological products. In March 2010, U.S. healthcare reform legislation amended the PHSA to authorize the U.S. Food and Drug Administration (FDA) to approve biological products, known as biosimilars or follow-on biologics, that are shown to be highly similar to previously approved biological products based upon potentially abbreviated data packages.

In addition, the U.S. healthcare reform legislation enacted in 2010 contained new cost containment measures. We have encountered similar efforts to reform health care coverage and costs in other countries in which we operate. Moreover, the economic environment in Europe has become increasingly challenging. Many of the countries in which we operate are also seeking to reduce their public expenditures in light of the recent global economic downturn. The deterioration of the credit and economic conditions in certain countries in Europe has delayed reimbursement for our products and led to additional austerity measures aimed at reducing healthcare



**Table of Contents**

costs. Global efforts to reduce healthcare costs continue to exert pressure on product pricing and have negatively impacted our revenues and results of operations. For additional information about certain risks that could negatively impact our financial position or future results of operations, please read the *Risk Factors* section of this report.

***Key Pipeline Development******BG-12***

In April 2011, we announced positive top-line results from DEFINE, the first of two pivotal Phase 3 clinical trials designed to evaluate our investigational oral compound BG-12 as a monotherapy in relapsing-remitting multiple sclerosis (RRMS). Results showed that 240 mg of BG-12, administered either twice or three times a day, met the primary and secondary study endpoints. Initial data from the trial also showed that BG-12 demonstrated a favorable safety and tolerability profile, consistent with what was seen in the published Phase 2 study of BG-12. A second Phase 3 RRMS clinical trial, CONFIRM, is currently underway, with results expected in the second half of 2011. The FDA recently rescinded the fast track designation for BG-12 due to the availability of another oral MS treatment on the market.

We have several patents and other rights applicable to BG-12. In the U.S. we are entitled to the 5 year data exclusivity given to new chemical entities and we own a patent covering the administration of dimethyl fumarate (DMF), the active ingredient in BG-12, to treat MS and other autoimmune diseases. This patent expires in 2020 with a possible term extension to be determined. In the E.U. we have a patent covering our BG-12 formulation and the method of treating MS and other autoimmune diseases with our formulation that expires in 2019 and which may also be eligible for patent term extension in some countries. There is some uncertainty around achieving data protection in the E.U. Specifically, we believe that we are entitled to 8 years of data exclusivity and 2 years of market exclusivity because we believe BG-12 is a *New Active Substance* under E.U. law. The European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP) has recently taken the position that a single active substance may not qualify for *New Active Substance* status if it was one component of a previously approved multi-component product. Other companies have challenged this position in litigation that is still ongoing. FUMADERM is approved for psoriasis in Germany and contains DMF, the active ingredient in BG-12, as well as additional monoethyl fumarate salts. We believe we will be entitled to data exclusivity and we will continue to pursue this as we move the compound forward.

We acquired BG-12 and FUMADERM (Fumapharm Products) as part of our acquisition of Fumapharm AG in 2006. We paid \$220.0 million upon closing of the transaction and will pay an additional \$15.0 million if a Fumapharm Product is approved for MS in the U.S. or E.U. We may also make the following milestone payments based on sales of Fumapharm Products in any indication less customary returns, discounts and allowances and charges for transportation, taxes and customs duties:

<b>Prior 12 Month Sales</b>	<b>Cumulative Sales Level</b>				<b>Each additional \$1.0B up to \$20.0B</b>
	<b>\$500M</b>	<b>\$1.0B</b>	<b>\$2.0B</b>	<b>\$3.0B</b>	
	<b>Payment Amount (In millions)</b>				
<\$500 million	\$	\$	\$	\$	\$
\$500 million - \$1.0 billion	22.0	25.0	50.0	\$ 50M	50.0
\$1.0 billion - \$1.5 billion		50.0	100.0	\$ 100M	100.0

Edgar Filing: Sears Holdings CORP - Form 425

\$1.5 billion	\$2.0 billion	150.0	\$ 150M	150.0
\$2.0 billion	\$2.5 billion	200.0	\$ 200M	200.0
\$2.5 billion	\$3.0 billion		\$ 250M	250.0
>\$3.0 billion				300.0

These milestone payments are considered contingent consideration and will be accounted for as an increase to goodwill as incurred, in accordance with the accounting standard applicable to business combinations when we acquired Fumapharm. Milestone payments are due within 30 days following the end of the quarter in which the applicable sales level has been reached and are based upon the total sales of Fumapharm Products in the prior twelve month period.

**Table of Contents****Results of Operations****Revenues**

Revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31,			
	2011		2010	
Product revenues				
United States	\$ 460.4	38.3%	\$ 410.3	37.0%
Rest of world	446.7	37.1%	413.9	37.3%
Total product revenues	\$ 907.1	75.4%	\$ 824.2	74.3%
Unconsolidated joint business	256.1	21.3%	254.9	23.0%
Other	40.1	3.3%	29.7	2.7%
Total revenues	\$ 1,203.3	100.0%	\$ 1,108.9	100.0%

**Product Revenues**

Product revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31,			
	2011		2010	
AVONEX	\$ 642.5	70.8%	\$ 592.5	71.9%
TYSABRI	251.4	27.7%	218.6	26.5%
Other	13.2	1.5%	13.1	1.6%
Total product revenues	\$ 907.1	100.0%	\$ 824.2	100.0%

**AVONEX**

Revenues from AVONEX are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31,			Change %
	2011	2010		
United States	\$ 387.3	\$ 349.9		10.7%

Rest of world	255.2	242.6	5.2%
Total AVONEX revenues	\$ 642.5	\$ 592.5	8.4%

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in U.S. AVONEX revenue was due to price increases. Sales volume for the three months comparative periods remained essentially unchanged. U.S. AVONEX revenues for the first quarter of 2011 were negatively impacted by an increase in reserves established for rebates and allowances related to the U.S. healthcare reform legislation enacted in March 2010.

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in rest of world AVONEX revenue was due to increased commercial demand offset by price decreases in some countries. Increased commercial demand resulted in increases of approximately 14.4% in rest of world AVONEX unit sales volume for the three months ended March 31, 2011, over the prior year comparative period. AVONEX rest of world revenues for the three months ended March 31, 2011 also includes losses recognized in relation to the settlement of certain cash flow hedge instruments under our foreign currency hedging program totaling \$7.1 million, compared to losses recognized of \$1.3 million in the prior year comparative period.

In April the CHMP recommended approval of AVONEX PEN for patients with relapsing MS and patients with a single demyelinating event. AVONEX PEN is designed to be the first single-use, once-a-week, fully integrated intramuscular autoinjector available for use with AVONEX treatment and may improve the

**Table of Contents**

convenience of AVONEX administration. The CHMP recommendation provides the basis for a European Commission licensing decision, which is expected within 75 days from the opinion. AVONEX PEN has already received authorization from Health Canada.

We expect AVONEX to face increasing competition in the MS marketplace in both the U.S. and rest of world. A number of companies, including us, are working to develop products to treat MS that may compete with AVONEX now and in the future, including oral and other alternative formulations. In addition, the continued growth of TYSABRI and the commercialization of our other pipeline product candidates may negatively impact future sales of AVONEX. Increased competition may also lead to reduced unit sales of AVONEX, as well as increasing price pressure.

***TYSABRI***

We collaborate with Elan Pharma International, Ltd (Elan) an affiliate of Elan Corporation, plc, on the development and commercialization of TYSABRI. For additional information related to this collaboration, please read Note 19, *Collaborations* to our consolidated financial statements included within our 2010 Form 10-K.

Revenues from TYSABRI are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
United States	\$ 73.2	\$ 60.4	21.1%
Rest of world	178.2	158.2	12.7%
Total TYSABRI revenues	\$ 251.4	\$ 218.6	15.0%

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in U.S. TYSABRI revenue was due to increased commercial demand and price increases. Increased commercial demand resulted in increases of approximately 11.4% in U.S. TYSABRI unit sales volume for the three months ended March 31, 2011, over the prior year comparative period. Net sales of TYSABRI from our collaboration partner, Elan, to third-party customers in the U.S. for the three months ended March 31, 2011 totaled \$169.9 million, compared to \$135.2 million in the prior year comparative period.

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in rest of world TYSABRI revenue was due to increased commercial demand offset by price decreases in some countries. Increased commercial demand resulted in increases of approximately 18.5% in rest of world TYSABRI unit sales volume for the three months ended March 31, 2011, over the prior year comparative period. TYSABRI rest of world revenues for the three months ended March 31, 2011 also includes losses recognized in relation to the settlement of certain cash flow hedge instruments under our foreign currency hedging program totaling \$1.2 million, compared to gains recognized of \$1.5 million in the prior year comparative period.

In April 2011, the U.S. Food and Drug Administration (FDA) approved changes to the U.S. TYSABRI label detailing the updated incidence of progressive multifocal leukoencephalopathy (PML), a serious brain infection, and clarifying that the risk of PML in patients who have been treated with an immunosuppressant before receiving TYSABRI is not

increased by prior treatment with short courses of corticosteroids. In April 2011, the CHMP recommended renewing TYSABRI's marketing authorization in the E.U. Formal approval is expected in late June. TYSABRI will undergo a second renewal process in another five years.

E.U. and U.S. regulators continue to monitor and assess on an ongoing basis the criteria for confirming PML diagnosis, the number of PML cases, the incidence of PML in TYSABRI patients, the risk factors for PML, and TYSABRI's benefit-risk profile, which could result in further modifications to the respective labels or other restrictions for TYSABRI. Safety warnings included with the TYSABRI label, and any future safety-related label changes, may limit the growth of TYSABRI unit sales. We continue to research and develop protocols and therapies that may reduce risk and improve outcomes of PML in patients. For example, we have initiated two clinical studies in the U.S., known as STRATIFY-1 and STRATIFY-2, that collectively are intended to define the

**Table of Contents**

prevalence of serum JC virus antibody in patients with relapsing MS receiving or considering treatment with TYSABRI and the stratification of patients into lower or higher risk for developing PML based on antibody status. In April 2011, the CHMP recommended that the product label for TYSABRI in the E.U. be updated to include anti-JC virus antibody status as a third risk factor to help stratify the risk of PML, with formal approval expected in June 2011. Prior immunosuppressant therapy and TYSABRI treatment duration are two established risk factors already included in the product labeling. In addition, our JC virus assay has recently been CE marked for commercial access in the E.U. and we anticipate it will become commercially available broadly in the E.U. by May 2011. We are pursuing regulatory approval of our JC virus assay in the U.S. and expect it will be available broadly in the U.S. later this year.

Our efforts to stratify patients into lower or higher risk for developing PML, and other ongoing or future clinical trials involving TYSABRI may have a negative impact on prescribing behavior in at least the short term, which may result in decreased product revenues from sales of TYSABRI. We also expect TYSABRI to face increasing competition in the MS marketplace in both the U.S. and rest of world. A number of companies, including us, are working to develop products to treat MS that may compete with TYSABRI now and in the future, including oral and other alternative formulations. In addition, the commercialization of our other pipeline product candidates may negatively impact future sales of TYSABRI. Increased competition may also lead to reduced unit sales of TYSABRI, as well as increasing price pressure.

**Unconsolidated Joint Business Revenues**

We collaborate with Genentech on the development and commercialization of RITUXAN. In April 2011, the FDA approved RITUXAN, in combination with corticosteroids, as a new medicine for adults with Wegener's Granulomatosis (WG) and Microscopic Polyangiitis (MPA). WG and MPA are two severe forms of vasculitis called ANCA-Associated Vasculitis (AAV), a rare autoimmune disease that largely affects the small blood vessels of the kidneys, lungs, sinuses, and a variety of other organs.

For additional information related to this collaboration and additional information regarding the pretax co-promotion profit sharing formula for RITUXAN and its impact on future unconsolidated joint business revenues, please read Note 19, *Collaborations* to our consolidated financial statements included within our 2010 Form 10-K.

Revenues from unconsolidated joint business are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Biogen Idec's share of co-promotion profits in the U.S.	\$ 221.9	\$ 200.3	10.8%
Reimbursement of selling and development expenses in the U.S.	2.7	16.2	(83.3)%
Revenue on sales of RITUXAN in the rest of world	31.5	38.4	(18.0)%
Total unconsolidated joint business revenues	\$ 256.1	\$ 254.9	0.5%

**Table of Contents*****Biogen Idec's Share of Co-Promotion Profits in the U.S.***

The following table provides a summary of amounts comprising our share of co-promotion profits in the U.S.:

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Product revenues, net	\$ 721.9	\$ 686.7	5.1%
Costs and expenses	154.7	173.5	(10.8)%
Co-promotion profits in the U.S.	\$ 567.2	\$ 513.2	10.5%
Biogen Idec's share of co-promotion profits in the U.S.	\$ 221.9	\$ 200.3	10.8%

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in U.S. RITUXAN product revenues was primarily due to price increases and increased commercial demand. Increased commercial demand resulted in increases of approximately 3.9% in U.S. RITUXAN unit sales volume for the three months ended March 31, 2011, over the prior year comparative period. U.S. RITUXAN product revenues for the first quarter of 2011 were also negatively impacted by an increase in reserves established for rebates and allowances related to the U.S. healthcare reform legislation enacted in March 2010. The decrease in collaboration costs and expenses for the three month comparative period was primarily related to Genentech assuming responsibility for the U.S. sales and marketing efforts for RITUXAN in the fourth quarter of 2010.

Under our collaboration agreement, our current pretax co-promotion profit-sharing formula, which resets annually, provides for a 40% share of co-promotion profits if co-promotion operating profits exceed \$50.0 million. For 2011 and 2010, the 40% threshold was met during the first quarter.

In addition, in 2011 a new fee became payable by all branded prescription drug manufacturers and importers. This fee will be calculated based upon each organization's percentage share of total branded prescription drug sales to qualifying U.S. government programs (such as Medicare, Medicaid and VA and PHS discount programs). We estimate that the fee assessed to Genentech on qualifying sales of RITUXAN will result in a reduction of our share of pre-tax co-promotion profits in the U.S. by approximately \$15.0 million in 2011.

***Reimbursement of Selling and Development Expenses in the U.S.***

In the fourth quarter of 2010, as part of our restructuring initiative, which is described below under the heading *Restructuring Charge*, we and Genentech made an operational decision under which we eliminated our RITUXAN oncology and rheumatology sales force, with Genentech assuming responsibility for the U.S. sales and marketing efforts related to RITUXAN. We believe that centralizing the sales force will enhance the sales effectiveness and profitability of our collaboration for the sale of RITUXAN in the U.S. As a result of this change, selling and development expense incurred by us in the U.S. and reimbursed by Genentech decreased for the three months ended March 31, 2011, in comparison to the same period in 2010. We expect that the amount of reimbursement for selling and development expense in the U.S. will decrease in future periods to a negligible amount.

***Revenue on Sales of RITUXAN in the Rest of the World***



Revenue on sales of RITUXAN in the rest of world consists of our share of pretax co-promotion profits in Canada and royalty revenue on sales of RITUXAN outside the U.S. and Canada. For the three months ended March 31, 2011, compared to the same period in 2010, revenues on sales of RITUXAN in the rest of world continue to decline due to the expiration of royalties on a country-by-country basis in certain of our rest of world markets. The royalty period for sales in the rest of world with respect to all products is 11 years from the first commercial sale of such product on a country-by-country basis. The royalty periods for substantially all of the remaining royalty-bearing sales of RITUXAN in the rest of the world will expire by 2012. As a result of these expirations, we expect royalty revenues derived from sales of RITUXAN in the rest of world to continue to decline in future periods.

**Table of Contents****Other Revenues**

Other revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Royalty revenues	\$ 25.6	\$ 26.0	(1.5)%
Corporate partner revenues	14.5	3.7	291.9%
Total other revenues	\$ 40.1	\$ 29.7	35.0%

***Royalty Revenues***

We receive royalties on sales by our licensees of a number of products covered under patents we own. For the three months ended March 31, 2011, compared to the same period in 2010, royalty revenues remained relatively unchanged.

Our most significant source of royalty revenue is derived from worldwide sales of ANGIOMAX by The Medicines Company (TMC). Royalty revenues related to the sales of ANGIOMAX are recognized in an amount equal to the level of net sales achieved during a calendar year multiplied by the royalty rate in effect for that tier under our agreement with TMC. The royalty rate increases based upon which tier of total net sales are earned in any calendar year. The increased royalty rate is applied retroactively to the first dollar of net sales achieved during the year. This formula has the effect of increasing the amount of royalty revenue to be recognized in later quarters and, as a result, an adjustment is recorded in the period in which an increase in royalty rate has been achieved.

Under the terms of our agreement, TMC is obligated to pay us royalties earned, on a country-by-country basis, until the later of (1) twelve years from the date of the first commercial sale of ANGIOMAX in such country or (2) the date upon which the product is no longer covered by a patent in such country. The annual royalty rate is reduced by a specified percentage in any country where the product is no longer covered by a patent and where sales have been reduced to a certain volume-based market share. TMC began selling ANGIOMAX in the U.S. in January 2001. The principal U.S. patent that covers ANGIOMAX was due to expire in March 2010 and TMC applied for an extension of the term of this patent. Initially, the U.S. Patent and Trademark Office (PTO) rejected TMC's application because in its view the application was not timely filed. TMC sued the PTO in federal district court seeking to extend the term of the principal U.S. patent to December 2014. On August 3, 2010, the federal district court ordered the PTO to deem the application as timely filed. The PTO did not appeal the order, but a generic manufacturer is challenging the order in an appellate proceeding. The PTO has granted an interim extension of the patent term until August 13, 2011. In the event that TMC is unsuccessful in obtaining a patent term extension thereafter and third parties sell products comparable to ANGIOMAX, we would expect a significant decrease in royalty revenues due to increased competition, which may impact sales and result in lower royalty tiered rates.

***Corporate Partner Revenues***

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in corporate partner revenue was primarily due to a one-time cash payment of approximately \$11.0 million received in exchange for entering into an asset transfer agreement in March 2011, related to two research and development programs that were

discontinued in connection with our *Framework for Growth* restructuring initiative.

**Provision for Discounts and Allowances**

Revenues from product sales are recorded net of applicable allowances for trade term discounts, wholesaler incentives, Medicaid rebates, Veterans Administration (VA) and Public Health Service (PHS) discounts, managed care rebates, product returns, and other governmental discounts or applicable allowances. Reserves established for these discounts and allowances are classified as reductions of accounts receivable (if the amount is payable to our customer) or a liability (if the amount is payable to a party other than our

**Table of Contents**

customer). These reserves are based on estimates of the amounts earned or claimed on the related sales. Our estimates take into consideration our historical experience, current contractual and statutory requirements, specific known market events and trends and forecasted customer buying patterns. Actual amounts may ultimately differ from our estimates. If actual results vary, we may need to adjust these estimates, which could have an effect on earnings in the period of the adjustment. The estimates we make with respect to these allowances represent the most significant judgments with regard to revenue recognition.

Reserves for discounts, contractual adjustments and returns that reduced gross product revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Discounts	\$ 23.8	\$ 19.3	23.3%
Contractual adjustments	86.1	55.9	54.0%
Returns	2.8	4.6	(39.1)%
Total allowances	\$ 112.7	\$ 79.8	41.2%
Gross product revenues	\$ 1,019.8	\$ 904.0	12.8%
Percent of gross product revenues	11.1%	8.8%	

Discount reserves include trade term discounts and wholesaler incentives. For the three months ended March 31, 2011, compared to the same period in 2010, the increase in discounts was primarily driven by increases in trade term discounts and wholesaler incentives as a result of price increases and increased sales.

Contractual adjustment reserves relate to Medicaid and managed care rebates, VA and PHS discounts and other governmental rebates or applicable allowances. For the three months ended March 31, 2011, compared to the same period in 2010, the increase in contractual adjustments was primarily due to the impact of higher contractual rebates and discounts resulting from U.S. healthcare reform legislation enacted in March 2010, including an increase in reserves associated with the implementation of additional discounts to Medicare beneficiaries in the first quarter of 2011 whose prescription drug costs cause them to be subject to the Medicare Part D coverage gap. In addition, the increase in contractual adjustments was also due to higher reserves for managed care and Medicaid and VA programs primarily associated with price increases in the U.S. as well as an increase in governmental rebates and allowances associated with the implementation of pricing actions in certain of the international markets in which we operate.

Product return reserves are established for returns made by wholesalers. In accordance with contractual terms, wholesalers are permitted to return product for reasons such as damaged or expired product. The majority of wholesaler returns are due to product expiration. We also accept returns from our patients for various reasons. Reserves for product returns are recorded in the period the related revenue is recognized, resulting in a reduction to product sales. For the three months ended March 31, 2011, compared to the same period in 2010, return reserves decreased due to a reduction of returns made by wholesalers.



**Table of Contents****Cost and Expenses**

A summary of total cost and expenses is as follows:

<b>(In millions, except percentages)</b>	<b>For the Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>Change %</b>
Cost of sales, excluding amortization of acquired intangible assets	\$ 103.1	\$ 97.1	6.2%
Research and development	293.6	307.0	(4.4)%
Selling, general and administrative	244.5	248.7	(1.7)%
Collaboration profit sharing	74.8	63.6	17.7%
Amortization of acquired intangible assets	53.2	48.9	8.9%
Restructuring charge	16.6		**
Acquired in-process research and development		40.0	(100.0)%
Fair value adjustment of contingent consideration	1.2		**
<b>Total cost and expenses</b>	<b>\$ 787.1</b>	<b>\$ 805.2</b>	<b>(2.2)%</b>

**Cost of Sales, Excluding Amortization of Acquired Intangible Assets (Cost of Sales)**

<b>(In millions, except percentages)</b>	<b>For the Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>Change %</b>
Cost of sales	\$ 103.1	\$ 97.1	6.2%

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in cost of sales was primarily due to higher unit sales volume. We expect an increase in cost of sales for the full year 2011, relative to prior year comparative periods, as a result of an increase in expected contract manufacturing activity and increased production costs, beginning in the second half of 2011.

**Research and Development**

<b>(In millions, except percentages)</b>	<b>For the Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>Change %</b>
Research and development	\$ 293.6	\$ 307.0	(4.4)%

For the three months ended March 31, 2011, compared to the same period in 2010, the decrease in research and development expense reflects our efforts to reallocate resources within our research and development organization consistent with our restructuring initiative. The savings expected to be achieved in 2011 upon comparison to 2010,

will be offset to some degree by research and development costs associated with initiatives to grow our business.

The decrease for the three month comparative period is primarily attributable to a reduction in spending related to certain programs which were terminated or are in the process of being discontinued as well as a reduction in workforce. This decrease is offset by an increase in R&D spend resulting from increased clinical trial activity for certain of our product candidates in or near registrational stage development, including among others, the BG-12, dextramipexole, Factor VIII, and PEGylated interferon beta-1a programs as well as an increase in spending associated with our efforts to research and develop protocols that may reduce the risk and improve outcomes of PML in patients treated with TYSABRI.

We intend to continue committing significant resources on targeted research and development opportunities, where there is a significant unmet need and where the drug candidate has the potential to be highly differentiated. Specifically, we intend to make significant investments during 2011 in the advancement of BG-12 and our Factor VIII and Factor IX hemophilia programs. We also intend in 2011 to invest in bringing

**Table of Contents**

forward our MS pipeline and in pursuing life-saving and life-changing therapies for other neurodegenerative diseases, such as amyotrophic lateral sclerosis (ALS).

***Milestone Payments***

In March 2011, we dosed the first patient in a registrational study for dexamipexole. The achievement of this milestone resulted in a \$10.0 million payment due to Knopp Neurosciences, Inc. (Knopp). As we consolidate Knopp, we have recognized this payment as a charge to noncontrolling interests in the first quarter of 2011.

In April 2011, we submitted an Investigational New Drug application for beta-amyloid removal therapy (BART), which triggered a \$15.0 million milestone payment due to Neurimmune SubOne AG (Neurimmune). BART is being developed for the treatment of Alzheimer's disease. As we consolidate Neurimmune, we will recognize this payment as a charge to noncontrolling interests in the second quarter of 2011.

**Selling, General and Administrative**

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Selling, general and administrative	\$ 244.5	\$ 248.7	(1.7)%

Selling, general and administrative expenses are primarily comprised of compensation and benefits associated with sales and marketing, finance, human resources, legal and other administrative personnel, outside marketing and legal expenses and other general and administrative costs.

For three months ended March 31, 2011 compared to the same period in 2010, the decrease in selling, general and administrative expenses reflects the impact of our restructuring initiatives, which is described below under the heading *Restructuring Charge*. The savings expected to be achieved upon comparison to 2010, will be offset to some degree by costs associated with initiatives to grow our business. The decrease for the three month comparative period was offset by increased sales and marketing activities in support of AVONEX and TYSABRI. Included within selling, general and administrative expenses for the three months ended March 31, 2010, is an incremental charge of approximately \$10.6 million recognized related to the modification of equity based compensation in accordance with the transition agreement entered into with James C. Mullen, who retired as our President and Chief Executive Officer on June 8, 2010.

**Collaboration Profit Sharing**

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Collaboration profit sharing	\$ 74.8	\$ 63.6	17.7%

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in collaboration profit sharing expense was due to the continued increase in TYSABRI rest of world sales resulting in higher rest of world net operating profits to be shared with Elan and resulting in growth in the third-party royalties Elan paid on behalf of



the collaboration. For the three months ended March 31, 2011 and 2010, our collaboration profit sharing expense included \$13.0 million and \$11.4 million, respectively, related to the reimbursement of third-party royalty payments made by Elan. For additional information related to this collaboration, please read Note 19, *Collaborations* to our consolidated financial statements included within our 2010 Form 10-K.

**Amortization of Acquired Intangible Assets**

<b>(In millions, except percentages)</b>	<b>For the Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>Change %</b>
Amortization of acquired intangible assets	\$ 53.2	\$ 48.9	8.9%

**Table of Contents**

Our most significant intangible asset is the core technology related to our AVONEX product. Our amortization policy reflects our belief that the economic benefit of our core technology is consumed as revenue is generated from our AVONEX product. We refer to this amortization methodology as the economic consumption model, which involves calculating a ratio of actual current period sales to total anticipated sales for the life of the product and applying this ratio to the carrying amount of the intangible asset. An analysis of the anticipated lifetime revenue of AVONEX is performed at least annually during our long range planning cycle, and this analysis serves as the basis for the calculation of our economic consumption amortization model. Although we believe this process has allowed us to reliably determine the best estimate of the pattern in which we will consume the economic benefits of our core technology intangible asset, the model could result in deferring amortization charges to future periods in certain instances, due to continued sales of the product at a nominal level after patent expiration or otherwise. In order to ensure that amortization charges are not unreasonably deferred to future periods, we compare the amount of amortization determined under the economic consumption model against the minimum amount of amortization recalculated each year under the straight-line method and record the higher amount.

We completed our most recent long range planning cycle in the third quarter of 2010. This analysis is based upon certain assumptions that we evaluate on a periodic basis, such as the anticipated product sales of AVONEX and expected impact of competitor products and our own pipeline product candidates, as well as the issuance of new patents or the extension of existing patents. Based upon this analysis, we have continued to amortize this asset on the economic consumption model.

Based upon our most recent analysis, amortization for acquired intangible assets is expected to be in the range of approximately \$180.0 million to \$220.0 million annually through 2015.

We monitor events and expectations on product performance. If there are any indications that the assumptions underlying our most recent analysis would be different than those utilized within our current estimates, our analysis would be updated and may result in a significant change in the anticipated lifetime revenue of AVONEX determined during our most recent annual review. For example, the occurrence of an adverse event, such as the invalidation of our AVONEX 755 Patent issued in September 2009, could substantially increase the amount of amortization expense associated with our acquired intangible assets as compared to previous periods or our current expectations, which may result in a significant negative impact on our future results of operations.

**Restructuring Charge**

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Restructuring charge	\$ 16.6	\$	**

In November 2010, we announced a number of strategic, operational, and organizational initiatives designed to provide a framework for the future growth of our business and realign our overall structure to become a more efficient and cost effective organization. As part of this initiative:

We terminated or are in the process of discontinuing certain research and development programs, including those in oncology and cardiovascular medicine that are no longer a strategic fit for our Company.

We have substantially completed a 13% reduction in workforce spanning our sales, research and development, and administrative functions.

We are in the process of vacating the San Diego, California facility and consolidating our Massachusetts facilities. In October 2010, we sold the San Diego facility and agreed to lease back the facility for a period of 15 months. In January 2011, we entered into an agreement to terminate this lease effective August 31, 2011. For a more detailed description of these transactions, please read Note 11, *Property, Plant and Equipment* to our condensed consolidated financial statements included within this report.

**Table of Contents**

We expect to fully realize annual operating expense savings of approximately \$300.0 million beginning in the second half of 2011 as result of these initiatives. The substantial majority of the savings will be realized within research and development and selling, general and administrative expense. These expected savings may be offset to some degree by costs associated with initiatives to grow our business.

We expect to incur restructuring charges totaling approximately \$110.0 million associated with the implementation of these initiatives. Costs associated with our workforce reduction primarily relate to employee severance and benefits. Facility consolidation costs are primarily comprised of charges associated with the closing of facilities, related lease obligations and additional depreciation recognized when the expected useful lives of certain assets have been shortened due to the consolidation and closing of related facilities and the discontinuation of certain research and development programs.

For the three months ended March 31, 2011, we recognized restructuring charges totaling \$16.6 million within our condensed consolidated statement of income, comprised of approximately \$12.1 million for workforce reduction and \$4.5 million for facility consolidation, of which \$3.5 million relates to additional depreciation. We previously recognized \$75.2 million of restructuring charges within our consolidated statement of income during the fourth quarter of 2010. We expect that our restructuring efforts will be substantially completed, and that substantially all of the remaining restructuring charges will be incurred and paid by the end of 2011.

The following table summarizes the activity of our restructuring liability:

<b>(In millions)</b>	<b>Workforce Reduction</b>	<b>Facility Consolidation</b>	<b>Total</b>
Restructuring reserve as of December 31, 2010	\$ 60.6	\$ 5.8	\$ 66.4
Expense	10.5	0.9	11.4
(Payments) receipts, net	(64.0)	(0.4)	(64.4)
Adjustments to previous estimates, net	1.7		1.7
Other adjustments	8.6	(3.2)	5.4
Restructuring reserve as of March 31, 2011	\$ 17.4	\$ 3.1	\$ 20.5

**Acquired In-Process Research and Development (IPR&D)**

<b>(In millions, except percentages)</b>	<b>For the Three Months Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>Change %</b>
Acquired in-process research and development	\$	\$ 40.0	(100.0)%

In connection with our acquisition of Biogen Idec Hemophilia Inc., formerly Syntonix Pharmaceuticals, Inc. (Syntonix), in January 2007, we agreed to make additional future consideration payments based upon the achievement of certain milestone events. One of these milestones was achieved when, in January 2010, we initiated patient enrollment in a registrational trial of Factor IX in hemophilia B. As a result of the achievement of this we paid approximately \$40.0 million to the former shareholders of Syntonix, which was reflected as a charge to acquired

IPR&D within our condensed consolidated statement of income for the three months ended March 31, 2010.

### Fair Value Adjustment of Contingent Consideration

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Fair value adjustment of contingent consideration	\$ 1.2	\$	**

In December 2010, we completed our acquisition of 100% of the stock of Panima Pharmaceuticals AG (Panima), an affiliate of Neurimmune AG. The purchase price was comprised of a \$32.5 million cash payment, plus up to \$395.0 million in contingent cash consideration payable upon the achievement of development

**Table of Contents**

milestones. Upon acquisition, we recorded a liability of \$81.2 million representing the acquisition date fair value of the contingent consideration. Subsequent changes in the fair value of this obligation are recognized as adjustments to contingent consideration within our consolidated statements of income. As of March 31, 2011, the fair value of the total contingent consideration obligation was \$82.4 million. The change in fair value of this obligation was primarily due to changes in the expected timing related to the achievement of certain developmental milestones and was recognized as a fair value adjustment of contingent consideration within our condensed consolidated statement of income for the three months ended March 31, 2011.

**Other Income (Expense), Net**

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Interest income	\$ 3.7	\$ 8.9	(58.4)%
Interest expense	(9.2)	(8.3)	10.8%
Impairments of investments	(1.2)	(15.8)	(92.4)%
Foreign exchange gains (losses), net	(0.4)	1.0	(140.0)%
Gain on sale of investments, net	15.3	5.0	206.0%
Other, net	1.8	0.8	125.0%
Total other income (expense), net	\$ 10.0	\$ (8.4)	219.0%

***Interest Income***

For the three months ended March 31, 2011, compared to the same period in 2010, interest income decreased primarily due to lower yields on cash, cash equivalents, and marketable securities and lower average cash balances.

***Interest Expense***

For the three months ended March 31, 2011, compared to the same period in 2010, interest expense remained relatively unchanged.

We capitalized interest costs related to construction in progress totaling approximately \$7.5 million, and \$7.8 million for the three months ended March 31, 2011 and 2010, respectively, which reduced our interest expense by the same amount. Capitalized interest costs are primarily related to the development of our large-scale biologic manufacturing facility in Hillerød, Denmark. We plan to stop further validation on the facility's operational qualification activities, we plan to cease capitalizing interest expense in relation to this project unless we move forward to process validation activities. Recent manufacturing improvements have resulted in favorable production yields on TYSABRI, that along with slower than expected TYSABRI growth, have reduced our expected capacity requirements. As a result, we have decided to delay the start of manufacturing activities at this site until additional capacity is required by the business.

***Impairment on Investments***

For the three months ended March 31, 2011, we recognized \$1.2 million in charges for the impairment of our investments in venture capital funds and investments in privately-held companies. No impairments were recognized in

relation to our publicly-held strategic investments.

For the three months ended March 31, 2010, we recognized \$15.8 million in charges for the impairment of our publicly-held strategic investments, investments in venture capital funds and investments in privately-held companies, which was primarily due to one of our strategic investments executing an equity offering at a price below our cost basis during the first quarter of 2010.

**Table of Contents*****Gain on Sale of Investments, net***

For the three months ended March 31, 2011 and 2010, we realized net gains of \$15.3 million and \$5.0 million, respectively, on the sale of investments. The gains for the three months ended March 31, 2011 include a gain of \$13.8 million on the sale of stock from our strategic investment portfolio that was deemed to be no longer strategic. The gains for the three months ended March 31, 2010 were due to sales of marketable securities.

**Income Tax Provision**

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Effective tax rate on pre-tax income	27.6%	25.5%	8.2%
Income tax expense	\$ 117.5	\$ 75.3	56.0%

Our effective tax rate fluctuates from year to year due to the nature of our global operations. The factors that most significantly impact our effective tax rate include variability in the allocation of our taxable earnings between multiple jurisdictions, changes in tax laws, acquisitions and licensing transactions.

The increase in our tax rate for the three months ended March 31, 2011, compared to the same period in 2010, was primarily a result of an increased percentage of our 2011 profits being earned in higher tax rate jurisdictions, principally the U.S., due in part to our 2010 restructuring initiative. In addition, a 2010 reorganization of certain of our international operations also resulted in a benefit in the first quarter of 2010, the period of reorganization. These factors were partially offset by the 2011 settlement of an outstanding IRS audit matter and an increase in research and development expenses eligible for orphan drug credit.

For a detailed income tax rate reconciliation for the three months ended March 31, 2011 and 2010, please read Note 16, *Income Taxes* to our condensed consolidated financial statements included within this report.

**Noncontrolling Interests**

(In millions)	For the Three Months Ended March 31,		
	2011	2010	Change %
Net income attributable to noncontrolling interests, net of tax	\$ 14.4	\$ 2.6	453.9%

For the three months ended March 31 2011, compared to the same period in 2010, the change in net income attributable to noncontrolling interests primarily resulted from the attribution of a \$10.0 million milestone payment due to Knopp, offset by the attribution of earnings from our foreign joint ventures, which were relatively consistent in each period.

In April 2011, we submitted an Investigational New Drug application for beta-amyloid removal therapy (BART), which triggered a \$15.0 million milestone payment due to Neurimmune. As we consolidate Neurimmune, we will recognize this payment as a charge to noncontrolling interests in the second quarter of 2011.



**Market Risk**

We conduct business globally. As a result, our international operations are subject to certain opportunities and risks which may affect our results of operations, including volatility in foreign currency exchange rates or weak economic conditions in the foreign markets in which we operate.

***Foreign Currency Exchange Risk***

Our results of operations are subject to foreign currency exchange rate fluctuations due to the global nature of our operations. While the financial results of our global activities are reported in U.S. dollars, the functional currency for most of our foreign subsidiaries is their respective local currencies. Fluctuations in the foreign currency exchange rates of the countries in which we do business will affect our operating results, often in ways that are difficult to predict. For example, when the U.S. dollar strengthens against foreign currencies, the relative value of sales made in the respective foreign currencies decreases, conversely, when the U.S. dollar weakens against foreign currencies, the relative amount of such sales in U.S. dollars increases.

## **Table of Contents**

Our net income may also fluctuate due to the impact of our foreign currency hedging program, which is designed to mitigate, over time, a portion of the impact resulting from volatility in exchange rate changes on net income and earnings per share. We use foreign currency forward contracts to manage foreign currency risk with the majority of our forward contracts used to hedge certain forecasted revenue transactions denominated in foreign currencies. Foreign currency gains or losses arising from our operations are recognized in the period in which we incur those gains or losses.

### ***Pricing Pressure***

We operate in certain countries where the economic conditions continue to present significant challenges. Many countries are reducing their public expenditures in light of the global economic downturn and the deterioration of the credit and economic conditions in certain countries in Europe. As a result, we expect to see continued efforts to reduce healthcare costs, particularly in certain of the international markets in which we operate. The implementation of pricing actions varies by country and certain measures already implemented, which include among other things, mandatory price reductions and suspensions on pricing increases on pharmaceuticals, have negatively impacted our revenues. In addition, certain countries set prices by reference to the prices in other countries where our products are marketed. Thus, our inability to secure adequate prices in a particular country may also impair our ability to obtain acceptable prices in existing and potential new markets. We expect that our revenues and results of operations will be further negatively impacted if these, similar or more extensive measures are, or continue to be, implemented in other countries in which we operate.

### ***Credit Risk***

We are subject to credit risk from our accounts receivable related to our product sales. The majority of our accounts receivable arise from product sales in the U.S. and Europe with concentrations of credit risk generally limited due to the wide variety of customers and markets using our products, as well as their dispersion across many different geographic areas. Our accounts receivable are primarily due from wholesale distributors, large pharmaceutical companies and public hospitals. We monitor the financial performance and credit worthiness of our large customers so that we can properly assess and respond to changes in their credit profile. We operate in certain countries where the economic conditions continue to present significant challenges. We continue to monitor these conditions, including the volatility associated with international economies and associated impacts on the relevant financial markets and our business. Our historical write-offs of accounts receivable have not been significant.

Within the European Union, our product sales in Italy, Spain and Portugal continue to be subject to significant payment delays due to government funding and reimbursement practices. The credit and economic conditions within these countries have deteriorated throughout 2010. These conditions have resulted in, and may continue to result in, an increase in the average length of time that it takes to collect on our accounts receivable outstanding in these countries. As of March 31, 2011, our accounts receivable balances in Italy, Spain and Portugal totaled \$141.3 million, \$113.9 million and \$28.7 million, respectively, totaling approximately \$283.9 million. Approximately \$70.0 million of this amount was outstanding for greater than one year. As of March 31, 2011, we had \$69.6 million of receivables that are expected to be collected beyond one year, which are included as a component of investments and other assets within our condensed consolidated balance sheet.

Our concentrations of credit risk related to our accounts receivable from product sales in Greece to date have been limited as our receivables within this market are due from our distributor. As of March 31, 2011, our accounts receivable balances due from our distributor in Greece totaled \$7.1 million. These receivables remain current and substantially in compliance with their contractual due dates. However, the majority of the sales by our distributor are to government funded hospitals and as a result our distributor maintains significant outstanding receivables with the government of Greece. In the event that Greece defaults on its debt and is unable to pay our distributor, we may be

unable to collect some or all of our remaining amounts due from the distributor.

In addition, the government of Greece may also require pharmaceutical creditors to accept mandatory, retroactive, price deductions in settlement of outstanding receivables and in this event we could be required to repay our distributor a portion of the amounts they have previously remitted to us. To date, we have not been required to repay such amounts to our distributor or take a discount in settlement of any outstanding receivables.

**Table of Contents**

We believe that our allowance for doubtful accounts was adequate as of March 31, 2011; however, if significant changes occur in the availability of government funding or the reimbursement practices of these or other governments, we may not be able to collect on amounts due to us from customers in such countries and our results of operations could be adversely affected.

**Financial Condition and Liquidity**

Our financial condition is summarized as follows:

<b>(In millions, except percentages)</b>	<b>As of March 31, 2011</b>	<b>As of December 31, 2010</b>	<b>Change %</b>
Financial assets:			
Cash and cash equivalents	\$ 790.7	\$ 759.6	4.1%
Marketable securities current	437.9	448.1	(2.3)%
Marketable securities non-current	885.4	743.1	19.2%
Total financial assets	\$ 2,114.0	\$ 1,950.8	8.4%
Borrowings:			
Current portion of notes payable, line of credit and other financing arrangements	\$ 134.8	\$ 137.2	(1.7)%
Notes payable and line of credit	1,065.6	1,066.4	(0.1)%
Total borrowings	\$ 1,200.4	\$ 1,203.5	(0.3)%
Working Capital:			
Current assets	\$ 2,628.3	\$ 2,540.4	3.5%
Current liabilities	(978.8)	(1,050.1)	(6.8)%
Working capital	\$ 1,649.5	\$ 1,490.3	10.7%

For the three months ended March 31, 2011, certain significant cash flows were as follows:

\$195.3 million used for share repurchases;

\$120.6 million in net proceeds used for the purchase of marketable securities;

\$91.2 million in proceeds from the issuance of stock for share-based compensation arrangements;

\$39.8 million in proceeds received on the sale of a strategic investment; and

\$32.1 million used for purchases of property, plant and equipment.

For the three months ended March 31, 2010, certain significant cash flows were as follows:

\$577.6 million used for share repurchases;

\$329.6 million in net proceeds received on sales and maturities of marketable securities;

\$52.8 million in proceeds from the issuance of stock for share-based compensation arrangements;

\$40.0 million payment made to the former shareholders of Syntonix recognized as IPR&D expense; and

\$38.2 million used for purchases of property, plant and equipment.

We have historically financed our operating and capital expenditures primarily through positive cash flows earned through our operations. We expect to continue funding our current and planned operating requirements principally through our cash flows from operations, as well as our existing cash resources. We believe that existing funds, when combined with cash generated from operations and our access to additional financing resources, if needed, are sufficient to satisfy our operating, working capital, strategic alliance,

## **Table of Contents**

milestone payment, capital expenditure and debt service requirements for the foreseeable future. In addition, we may choose to opportunistically return cash to shareholders and pursue other business initiatives, including acquisition and licensing activities. We may, from time to time, also seek additional funding through a combination of new collaborative agreements, strategic alliances and additional equity and debt financings or from other sources should we identify a significant new opportunity.

We consider the unrepatriated cumulative earnings of certain of our foreign subsidiaries to be invested indefinitely outside the U.S. Of the total cash, cash equivalents and marketable securities at March 31, 2011, approximately \$0.9 billion was generated from operations in foreign jurisdictions and is intended for use in our foreign operations. In managing our day-to-day liquidity in the U.S., we do not rely on the unrepatriated earnings as a source of funds and we have not provided for U.S. federal or state income taxes on these undistributed foreign earnings.

For additional information related to certain risks that could negatively impact our financial position or future results of operations, please read the *Risk Factors* and *Quantitative and Qualitative Disclosures About Market Risk* sections of this report.

### ***Preferred Stock***

In March 2011, 8,221 shares of our Series A Preferred Stock, which represented all preferred shares outstanding, were converted into shares of common stock by the holder pursuant to the conversion terms of the Series A Preferred Stock. As a result we issued 493,260 shares of common stock and no other shares of Preferred Stock remain issued and outstanding as of March 31, 2011.

### ***Share Repurchase Programs***

In February 2011, our Board of Directors authorized the repurchase of up to 20 million shares of our common stock. We expect to use this repurchase program principally to offset common stock issuance under our share-based compensation plans. This repurchase program does not have an expiration date. Under this authorization, we repurchased approximately 2.8 million shares of our common stock at a cost of \$195.3 million during the first quarter of 2011. From April 1, 2011 through April 21, 2011, we repurchased an additional 1.0 million shares under this program at a total cost of \$75.7 million. Approximately 16.2 million shares remain available for repurchase under the 2011 repurchase program.

In October 2009, our Board of Directors authorized the repurchase of up to \$1.0 billion of our common stock with the objective of reducing shares outstanding. This repurchase program was completed in the first quarter of 2010. For the three months ended March 31, 2010, we repurchased approximately 10.5 million shares of our common stock at a cost of \$577.6 million under our 2009 authorization. We retired these shares as they were acquired.

### ***Cash, Cash Equivalents and Marketable Securities***

Until required for another use in our business, we invest our cash reserves in bank deposits, certificates of deposit, commercial paper, corporate notes, U.S. and foreign government instruments and other interest bearing marketable debt instruments in accordance with our investment policy. We mitigate credit risk in our cash reserves and marketable securities by maintaining a well diversified portfolio that limits the amount of investment exposure as to institution, maturity, and investment type. The value of our investments, however, may be adversely affected by increases in interest rates, downgrades in the credit rating of the corporate bonds included in our portfolio, instability in the global financial markets that reduces the liquidity of securities included in our portfolio, and by other factors which may result in declines in the value of the investments. Each of these events may cause us to record charges to reduce the carrying value of our investment portfolio if the declines are other-than-temporary or sell investments for

less than our acquisition cost which could adversely impact our financial position and our overall liquidity. For a summary of the fair value and valuation methods of our marketable securities please read Note 8, *Fair Value Measurements* to our condensed consolidated financial statements included within this report.

**Table of Contents**

The increase in cash, cash equivalents and marketable securities from December 31, 2010, is primarily due to cash flows provided by operations, proceeds from the issuance of stock for share-based compensation arrangements, and proceeds received from the sale of a strategic investment offset by share repurchases and purchases of property, plant and equipment.

***Borrowings***

There have been no significant changes in our borrowings since December 31, 2010.

We have a \$360.0 million senior unsecured revolving credit facility, which we may choose to use for future working capital and general corporate purposes. The terms of this revolving credit facility include various covenants, including financial covenants that require us to not exceed a maximum leverage ratio and, under certain circumstances, an interest coverage ratio. This facility terminates in June 2012. No borrowings have ever been made under this credit facility and as of March 31, 2011 and December 31, 2010 we were in compliance with all applicable covenants.

For a summary of the fair and carrying value of our outstanding borrowings as of March 31, 2011 and December 31, 2010, please read Note 8, *Fair Value Measurements* to our condensed consolidated financial statements included within this report.

***Working Capital***

We define working capital as current assets less current liabilities. The increase in working capital from December 31, 2010, primarily reflects the overall net increase in total current assets of \$87.9 million and overall net decrease in total current liabilities of \$71.3 million.

The increase in total current assets was primarily due to the increase in accounts receivable, net. The reduction in total current liabilities primarily reflects the net decrease in amounts included within accrued expenses and other. This decrease was primarily related to the payment of 2010 annual bonus amounts due to employees, a reduction in accrued restructuring costs payable and the payment of interest on our Senior Notes, which is payable March 1 and September 1 of each year, offset by an increase in reserves established for rebates and allowances related to the U.S. healthcare reform legislation.

***Cash Flows***

The following table summarizes our cash flow activity:

(In millions, except percentages)	For the Three Months Ended March 31,		
	2011	2010	Change %
Net cash flows provided by operating activities	\$ 253.6	\$ 336.9	(24.7)%
Net cash flows (used in) provided by investing activities	\$ (126.8)	\$ 249.7	(150.8)%
Net cash flows used in financing activities	\$ (99.8)	\$ (523.5)	80.9%

***Operating Activities***

Cash flows from operating activities represent the cash receipts and disbursements related to all of our activities other than investing and financing activities. Cash provided by operating activities is primarily driven by our earnings and



changes in working capital. We expect cash provided from operating activities will continue to be our primary source of funds to finance operating needs and capital expenditures for the foreseeable future.

Operating cash flow is derived by adjusting our net income for:

Non-cash operating items such as depreciation and amortization, impairment charges and share-based compensation charges;

Changes in operating assets and liabilities which reflect timing differences between the receipt and payment of cash associated with transactions and when they are recognized in results of operations; and

## **Table of Contents**

Changes associated with the payment of contingent milestones associated with our prior acquisitions of businesses.

The decrease in cash provided by operating activities for the three months ended March 31, 2011, compared to the same period in 2010, was primarily driven by an increase in accounts receivable and receivables due from unconsolidated joint business offset by increased revenues.

### *Investing Activities*

For the three months ended March 31, 2011, compared to the same period in the prior year, the decrease in net cash flows provided by investing activities is primarily due to net purchases of marketable securities totaling \$120.6 million during the first quarter of 2011 compared to net proceeds received from sales and maturities of marketable securities of \$329.6 million in the prior year comparative period.

### *Financing Activities*

The decrease in net cash flows used in financing activities is due principally to decreases in the amounts of our common stock we repurchased compared to the same period in 2010. For the three months ended March 31, 2011, we repurchased approximately 2.8 million shares of our common stock for approximately \$195.3 million compared to 10.5 million shares for approximately \$577.6 million for the three months ended March 31, 2010.

Cash used in financing activities also includes activity under our employee stock plans. We received \$91.2 million during the first three months of 2011 and \$52.8 million during the first three months of 2010 related to stock option exercises and stock issuances under our employee stock purchase plan.

## **Contractual Obligations and Off-Balance Sheet Arrangements**

### *Contractual Obligations*

Our contractual obligations primarily consist of our obligations under non-cancellable operating leases, our notes payable and line of credit and other purchase obligations, excluding amounts related to uncertain tax positions, amounts payable to tax authorities, funding commitments, contingent milestone payments, contingent consideration, our financing arrangement related to the San Diego facility and other off-balance sheet arrangements as described below.

There have been no other significant changes in our contractual obligations since December 31, 2010.

### *Financing Arrangement*

As described in Note 11 *Property, Plant & Equipment* to our condensed consolidated financial statements included within this report, on October 1, 2010, we sold the San Diego facility and agreed to lease back the facility for a period of 15 months. We have accounted for these transactions as a financing arrangement and recorded an obligation of \$127.0 million on that date. As of March 31, 2011, our remaining obligation was \$125.0 million, which is reflected as a component of current portion of notes payable, line of credit and other financing arrangements within our condensed consolidated balance sheet.

In January 2011, we entered into an agreement to terminate our 15 month lease of the San Diego facility in August 31, 2011 and will have no continuing involvement or remaining obligation after that date. Once the lease arrangement has

concluded we will account for the San Diego facility as a sale of property and we do not expect to recognize a significant gain or loss on the sale at that time. We are scheduled to incur debt service payments and interest totaling approximately \$6.9 million over the term of the revised leaseback period.

***Tax Related Obligations***

We exclude liabilities pertaining to uncertain tax positions from our summary of contractual obligations as we cannot make a reliable estimate of the period of cash settlement with the respective taxing authorities. As of March 31, 2011, we have approximately \$87.0 million of liabilities associated with uncertain tax positions.

## **Table of Contents**

Included in these liabilities are amounts related to the settlement of our federal audit in the fourth quarter of 2009. As of March 31, 2011, we expect to pay approximately \$30.1 million within the next six months.

### ***Other Funding Commitments***

As of March 31, 2011, we have funding commitments of up to approximately \$18.6 million as part of our investment in biotechnology oriented venture capital investments.

As of March 31, 2011, we have several ongoing clinical studies in various clinical trial stages. Our most significant clinical trial expenditures are to clinical research organizations (CROs). The contracts with CROs are generally cancellable, with notice, at our option. We have recorded accrued expenses of \$18.3 million on our condensed consolidated balance sheet for expenditures incurred by CROs as of March 31, 2011. We have approximately \$287.3 million in cancellable future commitments based on existing CRO contracts as of March 31, 2011, which are not included in the contractual obligations table above because of our termination rights.

### ***Contingent Milestone Payments***

Based on our development plans as of March 31, 2011, we have committed to make potential future milestone payments to third parties of up to approximately \$1.4 billion as part of our various collaborations, including licensing and development programs. Payments under these agreements generally become due and payable only upon achievement of certain development, regulatory or commercial milestones. Because the achievement of these milestones had not occurred as of March 31, 2011, such contingencies have not been recorded in our financial statements.

We anticipate that we may pay approximately \$25.0 million of additional milestone payments during the remainder of 2011, provided various development, regulatory or commercial milestones are achieved. Amounts related to contingent milestone payments are not considered contractual obligations as they are contingent on the successful achievement of certain development, regulatory approval and commercial milestones. These milestones may not be achieved.

### ***Contingent Consideration***

In connection with our acquisitions of Panima Pharmaceuticals AG, Biogen Idec Hemophilia, Inc., and Fumapharm AG, we agreed to make additional consideration payments based upon the achievement of certain milestone events. Amounts related to contingent consideration obligations are not considered contractual obligations as they generally become due and payable only when a contingency is satisfied. These milestones may not be achieved.

We completed our acquisition of Panima Pharmaceuticals AG (Panima) in the fourth quarter of 2010. The purchase price for Panima included contingent consideration in the form of developmental milestones up to \$395.0 million in cash. For additional information related to our acquisition of Panima, please read Note 2, *Acquisitions* to our condensed consolidated financial statements included within this report.

In connection with our acquisition of Biogen Idec Hemophilia Inc. (BIH), formerly Syntonix Pharmaceuticals, Inc. (Syntonix), in January 2007, we agreed to make additional future consideration payments in the total amount of \$80.0 million, \$40.0 million each, respectively, based upon the achievement of certain milestone events associated with the development of BIH's lead product, long-lasting recombinant Factor IX. The first \$40.0 million contingent payment was achieved in the first quarter of 2010. \$20.0 million of the second contingent payment will occur if prior to the tenth anniversary of the closing date the FDA grants approval of a Biologic License Application for Factor IX. An additional \$20.0 million second contingent payment will occur if prior to the tenth anniversary of the closing date,

a marketing authorization is granted by EMA for Factor IX.

In 2006, we acquired Fumapharm AG. As part of this acquisition we acquired FUMADERM and BG-12 (Fumapharm Products). We paid \$220.0 million upon closing of the transaction and will pay an additional \$15.0 million if a Fumapharm Product is approved for MS in the U.S. or E.U. We may also make additional milestone payments based on sales of Fumapharm Products in any indication. These milestone payments are considered contingent consideration. For additional discussion regarding the amount of potential additional

## **Table of Contents**

consideration payments, please read the subsection entitled *Key Pipeline Development BG-12* in the *Management's Discussion and Analysis of Financial Condition and Results of Operations* section of this report.

### ***Other Off-Balance Sheet Arrangements***

We do not have any relationships with entities often referred to as structured finance or special purpose entities which would have been established for the purpose of facilitating off-balance sheet arrangements. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We consolidate variable interest entities if we are the primary beneficiary.

### **Legal Matters**

For a discussion of legal matters as of March 31, 2011, please read Note 19, *Litigation* to our condensed consolidated financial statements included within this report.

### **New Accounting Standards**

For a discussion of new accounting standards please read Note 21, *New Accounting Pronouncements* to our condensed consolidated financial statements included within this report.

### **Critical Accounting Estimates**

The preparation of our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP), requires us to make estimates, judgments and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We believe the most complex judgments result primarily from the need to make estimates about the effects of matters that are inherently uncertain and are significant to our condensed consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. We evaluate our estimates, judgments and assumptions on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

For a discussion of our critical accounting estimates, please read Part II, Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* of our 2010 Form 10-K.

### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

Our market risks, and the ways we manage them, are summarized in Part II, Item 7A, *Quantitative and Qualitative Disclosures About Market Risk* of our 2010 Form 10-K. There have been no material changes in the first three months of 2011 to our market risks or to our management of such risks.

### **Item 4. *Controls and Procedures***

#### **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

##### ***Controls and Procedures***

We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, 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 Securities Exchange Act of 1934, as amended), as of March 31, 2011. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that (a) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow

**Table of Contents**

timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

***Changes in Internal Control over Financial Reporting***

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II OTHER INFORMATION**

**Item 1. *Legal Proceedings***

Please refer to Note 19, *Litigation* to our condensed consolidated financial statements included within this report, which is incorporated into this item by reference.

**Item 1A. *Risk Factors***

***We are substantially dependent on revenues from our three principal products.***

Our current and future revenues depend upon continued sales of our three principal products, AVONEX, RITUXAN and TYSABRI, which represented substantially all of our total revenues during the first quarter of 2011. Although we have developed and continue to develop additional products for commercial introduction, we may be substantially dependent on sales from these three products for many years. Any negative developments relating to any of these products, such as safety or efficacy issues, the introduction or greater acceptance of competing products, including biosimilars, or adverse regulatory or legislative developments, may reduce our revenues and adversely affect our results of operations. New competing products for use in multiple sclerosis are beginning to enter the market and if they have a similar or more attractive profile in terms of efficacy, convenience or safety, future sales of AVONEX and TYSABRI could be limited, which would reduce our revenues.

***TYSABRI s sales growth is important to our success.***

We expect that our revenue growth over the next several years will be dependent in part upon sales of TYSABRI. If we are not successful in growing sales of TYSABRI, our future business plans, revenue growth and results of operations may be adversely affected.

TYSABRI s sales growth cannot be certain given the significant restrictions on use and the significant safety warnings in the label, including the risk of developing progressive multifocal leukoencephalopathy (PML), a serious brain infection. The risk of developing PML increases with prior immunosuppressant use, which may cause patients who have previously received immunosuppressants or their physicians to refrain from using or prescribing TYSABRI. The risk of developing PML also increases with longer treatment duration, with limited experience beyond four years. This may cause prescribing physicians or patients to suspend treatment with TYSABRI. Increased incidences of PML could limit sales growth, prompt regulatory review, require significant changes to the label or result in market withdrawal. Additional regulatory restrictions on the use of TYSABRI or safety-related label changes, including enhanced risk management programs, whether as a result of additional cases of PML or otherwise, may significantly reduce expected revenues and require significant expense and management time to address the associated legal and regulatory issues. In addition, ongoing or future clinical trials involving TYSABRI and efforts at stratifying patients into groups with lower or higher risk for developing PML, including evaluating the potential clinical utility of a JC



virus antibody assay, may have an adverse impact on prescribing behavior and reduce sales of TYSABRI.

**Table of Contents**

***If we fail to compete effectively, our business and market position would suffer.***

The biotechnology and pharmaceutical industry is intensely competitive. We compete in the marketing and sale of our products, the development of new products and processes, the acquisition of rights to new products with commercial potential and the hiring and retention of personnel. We compete with biotechnology and pharmaceutical companies that have a greater number of products on the market and in the product pipeline, greater financial and other resources and other technological or competitive advantages. One or more of our competitors may benefit from significantly greater sales and marketing capabilities, may develop products that are accepted more widely than ours and may receive patent protection that dominates, blocks or adversely affects our product development or business. In addition, healthcare reform legislation enacted in the U.S. in 2010 has created a pathway for the U.S. Food and Drug Administration (FDA) to approve biosimilars, which could compete on price and differentiation with products that we now or could in the future market. The introduction of more efficacious, safer, cheaper, or more convenient alternatives to our products could reduce our revenues and the value of our product development efforts.

***Our long-term success depends upon the successful development and commercialization of other product candidates.***

Our long-term viability and growth will depend upon the successful development and commercialization of new products from our research and development activities, including products licensed from third parties. We have several late-stage clinical programs expected to have near-term data readouts that could impact our prospects for additional revenue growth. Product development and commercialization are very expensive and involve a high degree of risk. Only a small number of research and development programs result in the commercialization of a product. Success in preclinical work or early stage clinical trials does not ensure that later stage or larger scale clinical trials will be successful. Even if later stage clinical trials are successful, product candidates may not receive marketing approval if regulatory authorities disagree with our view of the data or require additional studies.

Conducting clinical trials is a complex, time-consuming and expensive process. Our ability to complete our clinical trials in a timely fashion depends in large part on a number of key factors including protocol design, regulatory and institutional review board approval, the rate of patient enrollment in clinical trials, and compliance with extensive current good clinical practice requirements. We have opened clinical sites and are enrolling patients in a number of new countries where our experience is more limited, and we are in many cases using the services of third-party clinical trial providers. If we fail to adequately manage the design, execution and regulatory aspects of our large, complex and diverse clinical trials, our studies and ultimately our regulatory approvals may be delayed or we may fail to gain approval for our product candidates altogether.

Our product pipeline includes several small molecule drug candidates. Our small molecule drug discovery platform is not as well developed as our biologics platform and we expect to rely on third party manufacturers to supply substantially all of our clinical requirements for small molecules. If these manufacturers fail to deliver sufficient quantities of such drug candidates in a timely and cost-effective manner, it could adversely affect our small molecule drug discovery efforts.

***Adverse safety events can negatively affect our business and stock price.***

Adverse safety events involving our marketed products may have a negative impact on our commercialization efforts. Later discovery of safety issues with our products that were not known at the time of their approval by the FDA or other regulatory agencies worldwide could cause product liability events, additional regulatory scrutiny and requirements for additional labeling, withdrawal of products from the market and the imposition of fines or criminal penalties. Any of these actions could result in, among other things, material write-offs of inventory and impairments of intangible assets, goodwill and fixed assets and material restructuring charges. In addition, the reporting of adverse

safety events involving our products and public rumors about such events could cause our stock price to decline or experience periods of volatility.

**Table of Contents**

***We depend, to a significant extent, on reimbursement from third party payors and a reduction in the extent of reimbursement could reduce our product sales and revenue.***

Sales of our products are dependent, in large part, on the availability and extent of reimbursement from government health administration authorities, private health insurers and other organizations. Changes in government regulations or private third-party payors' reimbursement policies may reduce reimbursement for our products and adversely affect our future results. In addition, when a new medical product is approved, the availability of government and private reimbursement for that product is uncertain, as is the amount for which that product will be reimbursed. We cannot predict the availability or amount of reimbursement for our product candidates.

The U.S. Congress enacted legislation in 2010 to reform the health care system. This legislation imposes cost containment measures that have adversely affected the amount of reimbursement for our products and may negatively affect our revenues and prospects for profitability in the future. For a more detailed description of this legislation's impact on our business, please read *Management's Discussion and Analysis of Financial Condition and Results of Operations* within this report.

Economic pressure on state budgets may result in states increasingly seeking to achieve budget savings through mechanisms that limit coverage or payment for our drugs. In recent years, some states have considered legislation that would control the prices of drugs. State Medicaid programs are increasingly requesting manufacturers to pay supplemental rebates and requiring prior authorization by the state program for use of any drug for which supplemental rebates are not being paid. Managed care organizations continue to seek price discounts and, in some cases, to impose restrictions on the coverage of particular drugs. Government efforts to reduce Medicaid expenses may lead to increased use of managed care organizations by Medicaid programs. This may result in managed care organizations influencing prescription decisions for a larger segment of the population and a corresponding constraint on prices and reimbursement for our products. It is likely that federal and state legislatures and health agencies will continue to focus on additional health care reform in the future.

We encounter similar regulatory and legislative issues in most other countries. In the European Union and some other international markets, the government provides health care at low cost to consumers and regulates pharmaceutical prices, patient eligibility or reimbursement levels to control costs for the government-sponsored health care system. Many countries are reducing their public expenditures and we expect to see strong efforts to reduce healthcare costs in our international markets, including patient access restrictions, suspensions on price increases, prospective and possibly retroactive price reductions and increased mandatory discounts or rebates, recoveries of past price increases, and greater importation of drugs from lower-cost countries to higher-cost countries. We expect that our revenues would be negatively impacted if similar measures are or continued to be implemented in other countries in which we operate. In addition, certain countries set prices by reference to the prices in other countries where our products are marketed. Thus, our inability to secure adequate prices in a particular country may also adversely affect our ability to obtain acceptable prices in both existing and potential new markets. This may create the opportunity for third party cross border trade or influence our decision to sell or not to sell a product, thus adversely affecting our geographic expansion plans and revenues.

***Adverse market and economic conditions may exacerbate certain risks affecting our business.***

Sales of our products are dependent on reimbursement from government health administration authorities, private health insurers, distribution partners and other organizations. As a result of adverse conditions affecting the U.S. and global economies and credit and financial markets, including the current sovereign debt crisis in certain countries in Europe and disruptions due to natural disasters, political instability or otherwise, these organizations may be unable to satisfy their reimbursement obligations or may delay payment. In addition, governmental health authorities may reduce the extent of reimbursements, and private insurers may increase their scrutiny of claims. A reduction in the

availability or extent of reimbursement could reduce our product sales and revenue, or result in additional allowances or significant bad debts, which may adversely affect our results of operations.

**Table of Contents**

***We depend on collaborators and other third-parties for both product and royalty revenue and the clinical development of future products, which are outside of our full control.***

Collaborations between companies on products or programs are a common business practice in the biotechnology industry. Out-licensing typically allows a partner to collect up front payments and future milestone payments, share the costs of clinical development and risk of failure at various points, and access sales and marketing infrastructure and expertise in exchange for certain financial rights to the product or program going to the in-licensing partner. In addition, the obligation of in-licensees to pay royalties or share profits generally terminates upon expiration of the related patents. We have a number of collaborators and partners, and have both in-licensed and out-licensed several products and programs. These collaborations are subject to several risks:

Our RITUXAN revenues are dependent on the efforts of Genentech and the Roche Group. Their interests may not always be aligned with our interests and they may not market RITUXAN in the same manner or to the same extent that we would, which could adversely affect our RITUXAN revenues.

Under our collaboration agreement with Genentech, the successful development and commercialization of GA101 and certain other anti-CD20 products will decrease our percentage of the collaboration's co-promotion profits.

We are not fully in control of the royalty or profit sharing revenues we receive from collaborators, which may be adversely affected by patent expirations, pricing or health care reforms, other legal and regulatory developments, and the introduction of competitive products, and new indication approvals which may affect the sales of collaboration products.

Any failure on the part of our collaboration partners to comply with applicable laws and regulatory requirements in the sale and marketing of our products could have an adverse effect on our revenues as well as involve us in possible legal proceedings.

Collaborations often require the parties to cooperate, and failure to do so effectively could have an adverse impact on product sales by our collaborators and partners, and could adversely affect the clinical development or regulatory approvals of products under joint control.

In addition, we rely on third parties for several other aspects of our business. As a sponsor of clinical trials of our products, we rely on third party contract research organizations to carry out many of our clinical trial related activities. These activities include initiating the conduct of studies at clinical trial sites, regularly monitoring the conduct of the study at study sites, and identifying instances of noncompliance with the study protocol or current Good Clinical Practices. The failure of a contract research organization to conduct these activities with proper vigilance and competence and in accordance with Good Clinical Practices can result in regulatory authorities rejecting our clinical trial data or, in some circumstances, the imposition of civil or criminal sanctions against us.

***If we do not successfully execute our growth initiatives through the acquisition, partnering and in-licensing of products, technologies or companies, our future performance could be adversely affected.***

We anticipate growing through both internal development projects as well as external opportunities, which include the acquisition, partnering and in-licensing of products, technologies and companies or the entry into strategic alliances and collaborations. The availability of high quality opportunities is limited and we are not certain that we will be able to identify candidates that we and our shareholders consider suitable or complete transactions on terms that are acceptable to us and our shareholders. In order to pursue such opportunities, we may require significant additional financing, which may not be available to us on favorable terms, if at all. Even if we are able to successfully identify

and complete acquisitions, we may not be able to integrate them or take full advantage of them and therefore may not realize the benefits that we expect. If we are unsuccessful in our external growth program, we may not be able to grow our business significantly and we may incur asset impairment or restructuring charges as a result of unsuccessful transactions.

**Table of Contents**

***If we fail to comply with the extensive legal and regulatory requirements affecting the health care industry, we could face increased costs, penalties and a loss of business.***

Our activities, and the activities of our collaborators and third party providers, are subject to extensive government regulation and oversight both in the U.S. and in foreign jurisdictions. The FDA and comparable agencies in other jurisdictions directly regulate many of our most critical business activities, including the conduct of preclinical and clinical studies, product manufacturing, advertising and promotion, product distribution, adverse event reporting and product risk management. Our interactions in the U.S. or abroad with physicians and other health care providers that prescribe or purchase our products are also subject to government regulation designed to prevent fraud and abuse in the sale and use of the products. In the U.S., states increasingly have been placing greater restrictions on the marketing practices of health care companies. In addition, pharmaceutical and biotechnology companies have been the target of lawsuits and investigations alleging violations of government regulation, including claims asserting submission of incorrect pricing information, impermissible off-label promotion of pharmaceutical products, payments intended to influence the referral of federal or state health care business, submission of false claims for government reimbursement, antitrust violations, or violations related to environmental matters. Violations of governmental regulation may be punishable by criminal and civil sanctions against us, including fines and civil monetary penalties and exclusion from participation in government programs, including Medicare and Medicaid, as well as against executives overseeing our business. In addition to penalties for violation of laws and regulations, we could be required to repay amounts we received from government payors, or pay additional rebates and interest if we are found to have miscalculated the pricing information we have submitted to the government. Whether or not we have complied with the law, an investigation into alleged unlawful conduct could increase our expenses, damage our reputation, divert management time and attention and adversely affect our business. Recent changes in U.S. fraud and abuse laws have strengthened government regulation, increased the investigative powers of government enforcement agencies, and enhanced penalties for non-compliance.

***If we fail to meet the stringent requirements of governmental regulation in the manufacture of our products, we could incur substantial costs and a reduction in sales.***

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

***Our investments in properties, including our manufacturing facilities, may not be fully realizable.***

We own or lease real estate primarily consisting of buildings that contain research laboratories, office space, and biologic manufacturing operations, some of which are located in markets that are experiencing high vacancy rates and decreasing property values. If we decide to consolidate or co-locate certain aspects of our business operations, for strategic or other operational reasons, we may dispose of one or more of our properties.

Due to reduced expectations of product demand, improved yields on production and other factors, we may not fully utilize our manufacturing facilities at normal levels resulting in idle time at facilities or substantial excess



manufacturing capacity. We regularly evaluate our current manufacturing strategy, and may pursue alternatives that include disposing of manufacturing facilities.

**Table of Contents**

If we determine that the fair value of any of our owned properties, including any properties we may classify as held for sale, is lower than their book value we may not realize the full investment in these properties and incur significant impairment charges. In addition, if we decide to fully or partially vacate a leased property, we may incur significant cost, including lease termination fees, rent expense in excess of sublease income and impairment of leasehold improvements.

***Problems with manufacturing or with inventory planning could result in inventory shortages, product recalls and increased costs.***

Biologics manufacturing is extremely susceptible to product loss due to contamination, equipment failure, or vendor or operator error. In addition, we may need to close a manufacturing facility for an extended period of time due to microbial, viral or other contamination. Any of these events could result in shipment delays or product recalls, impairing our ability to supply products in existing markets or expand into new markets. In the past, we have taken inventory write-offs and incurred other charges and expenses for products that failed to meet specifications, and we may incur similar charges in the future.

We rely solely on our manufacturing facility in Research Triangle Park, North Carolina for the production of TYSABRI. Our global bulk supply of TYSABRI depends on the uninterrupted and efficient operation of this facility, which could be adversely affected by equipment failures, labor shortages, natural disasters, power failures and numerous other factors. If we are unable to meet demand for TYSABRI for any reason, we would need to rely on a limited number of qualified third party contract manufacturers. We cannot be certain that we could reach agreement on reasonable terms, if at all, with those manufacturers or that the FDA or other regulatory authorities would approve our use of such manufacturers on a timely basis, if at all. Moreover, the transition of our manufacturing process to a third party could take a significant amount of time, involve significant expense and increase our manufacturing costs.

***We rely on third parties to provide services in connection with the manufacture of our products and, in some instances, manufacture the product itself.***

We rely on Genentech for all RITUXAN manufacturing. Genentech relies on a third party to manufacture certain bulk RITUXAN requirements. If Genentech or any third party upon which it relies does not manufacture or fill- finish RITUXAN in sufficient quantities and on a timely and cost-effective basis, or if Genentech or any third party does not obtain and maintain all required manufacturing approvals, our business could be harmed.

We also source all of our fill-finish and the majority of our final product storage operations, along with a substantial portion of our packaging operations, to a concentrated group of third party contractors. Any third party we use to fill-finish, package or store our products to be sold in the U.S. must be licensed by the FDA. As a result, alternative third party providers may not be readily available on a timely basis or, if available, may be more costly than current providers. The manufacture of products and product components, fill-finish, packaging and storage of our products require successful coordination among us and multiple third party providers. Our inability to coordinate these efforts, the lack of capacity available at a third party contractor or any other problems with the operations of these third party contractors could require us to delay shipment of products or recall products previously shipped or impair our ability to supply products at all. This could increase our costs, cause us to lose revenue or market share, diminish our profitability or damage our reputation.

Due to the unique manner in which our products are manufactured, we rely on single source providers of several raw materials. We make efforts to qualify new vendors and to develop contingency plans so that production is not impacted by short-term issues associated with single source providers. Nonetheless, our business could be materially impacted by long-term or chronic issues associated with single source providers.



**Table of Contents**

***Changes in laws affecting the health care industry could adversely affect our revenues and profitability.***

We and our collaborators and third party providers operate in a highly regulated industry. As a result, governmental actions may adversely affect our business, operations or financial condition, including:

new laws, regulations or judicial decisions, or new interpretations of existing laws, regulations or decisions, related to health care availability, pricing or marketing practices, compliance with wage and hour laws and other employment practices, method of delivery and payment for health care products and services;

changes in the FDA and foreign regulatory approval processes that may delay or prevent the approval of new products and result in lost market opportunity;

changes in FDA and foreign regulations that may require additional safety monitoring, labeling changes, restrictions on product distribution or use, or other measures after the introduction of our products to market, which could increase our costs of doing business, adversely affect the future permitted uses of approved products, or otherwise adversely affect the market for our products; and

changes in the tax laws relating to our operations.

The enactment in the U.S. of health care reform, potential regulations easing the entry of competing follow-on biologics in the marketplace, new legislation or implementation of existing statutory provisions on importation of lower-cost competing drugs from other jurisdictions, and legislation on comparative effectiveness research are examples of previously enacted and possible future changes in laws that could adversely affect our business.

***Our effective tax rate may fluctuate and we may incur obligations in tax jurisdictions in excess of accrued amounts.***

As a global biotechnology company, we are subject to taxation in numerous countries, states and other jurisdictions. As a result, our effective tax rate is derived from a combination of applicable tax rates in the various places that we operate. In preparing our financial statements, we estimate the amount of tax that will become payable in each of such places. Our effective tax rate, however, may be different than experienced in the past due to numerous factors, including changes in the mix of our profitability from country to country, the results of audits of our tax filings, changes in accounting for income taxes and changes in tax laws. Any of these factors could cause us to experience an effective tax rate significantly different from previous periods or our current expectations.

In addition, our inability to secure or sustain acceptable arrangements with tax authorities and previously enacted or future changes in the tax laws, among other things, may result in tax obligations in excess of amounts accrued in our financial statements.

In the U.S., there are several proposals under consideration to reform tax law, including proposals that may reduce or eliminate the deferral of U.S. income tax on our unrepatriated earnings, scrutinize certain transfer pricing structures, and reduce or eliminate certain foreign tax credits. Our future reported financial results may be adversely affected by tax law changes which restrict or eliminate certain foreign tax credits or our ability to deduct expenses attributable to foreign earnings, or otherwise affect the treatment of our unrepatriated earnings.

***The growth of our business depends on our ability to attract and retain qualified personnel and key relationships.***

The achievement of our commercial, research and development and external growth objectives depends upon our ability to attract and retain qualified scientific, manufacturing, sales and marketing and executive personnel and to

develop and maintain relationships with qualified clinical researchers and key distributors. Competition for these people and relationships is intense and comes from a variety of sources, including pharmaceutical and biotechnology companies, universities and non-profit research organizations.

**Table of Contents**

***Our sales and operations are subject to the risks of doing business internationally.***

We are increasing our presence in international markets, which subjects us to many risks, such as:

- the inability to obtain necessary foreign regulatory or pricing approvals of products in a timely manner;
- fluctuations in currency exchange rates;
- difficulties in staffing and managing international operations;
- the imposition of governmental controls;
- less favorable intellectual property or other applicable laws;
- restrictions on direct investments by foreign entities and trade restrictions;
- greater political or economic instability; and
- changes in tax laws and tariffs.

In addition, our international operations are subject to regulation under U.S. law. For example, the Foreign Corrupt Practices Act prohibits U.S. companies and their representatives from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad. In many countries, the health care professionals we regularly interact with may meet the definition of a foreign government official for purposes of the Foreign Corrupt Practices Act. Failure to comply with domestic or foreign laws could result in various adverse consequences, including possible delay in approval or refusal to approve a product, recalls, seizures, withdrawal of an approved product from the market, the imposition of civil or criminal sanctions and the prosecution of executives overseeing our international operations.

***Uncertainty over intellectual property in the biotechnology industry has been the source of litigation, which is inherently costly and unpredictable.***

We are aware that others, including various universities and companies working in the biotechnology field, have filed patent applications and have been granted patents in the U.S. and in other countries claiming subject matter potentially useful to our business. Some of those patents and patent applications claim only specific products or methods of making such products, while others claim more general processes or techniques useful or now used in the biotechnology industry. There is considerable uncertainty within the biotechnology industry about the validity, scope and enforceability of many issued patents in the U.S. and elsewhere in the world, and, to date, there is no consistent policy regarding the breadth of claims allowed in biotechnology patents. We cannot currently determine the ultimate scope and validity of patents which may be granted to third parties in the future or which patents might be asserted to be infringed by the manufacture, use and sale of our products.

There has been, and we expect that there may continue to be, significant litigation in the industry regarding patents and other intellectual property rights. Litigation and administrative proceedings concerning patents and other intellectual property rights may be protracted, expensive and distracting to management. Competitors may sue us as a way of delaying the introduction of our products. Any litigation, including any interference proceedings to determine priority of inventions, oppositions to patents in foreign countries or litigation against our partners may be costly and time consuming and could harm our business. We expect that litigation may be necessary in some instances to determine the validity and scope of certain of our proprietary rights. Litigation may be necessary in other instances to

determine the validity, scope or non-infringement of certain patent rights claimed by third parties to be pertinent to the manufacture, use or sale of our products. Ultimately, the outcome of such litigation could adversely affect the validity and scope of our patent or other proprietary rights or hinder our ability to manufacture and market our products.

**Table of Contents**

***If we are unable to adequately protect and enforce our intellectual property rights, our competitors may take advantage of our development efforts or our acquired technology.***

We have filed numerous patent applications in the U.S. and various other countries seeking protection of the processes, products and other inventions originating from our research and development. Patents have been issued on many of these applications. We have also obtained rights to various patents and patent applications under licenses with third parties, which provide for the payment of royalties by us. The ultimate degree of patent protection that will be afforded to biotechnology products and processes, including ours, in the U.S. and in other important markets remains uncertain and is dependent upon the scope of protection decided upon by the patent offices, courts and lawmakers in these countries. Our patents may not afford us substantial protection or commercial benefit. Similarly, our pending patent applications or patent applications licensed from third parties may not ultimately be granted as patents and we may not prevail if patents that have been issued to us are challenged in court. In addition, pending legislation to reform the patent system and court decisions or patent office regulations that place additional restrictions on patent claims or that facilitate patent challenges could also reduce our ability to protect our intellectual property rights. If we cannot prevent others from exploiting our inventions, we will not derive the benefit from them that we currently expect.

We also rely upon unpatented trade secrets and other proprietary information, and we cannot ensure that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or disclose such technology, or that we can meaningfully protect such rights. We require our employees, consultants, outside scientific collaborators, scientists whose research we sponsor and other advisers to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements may not provide meaningful protection or adequate remedies for our unpatented proprietary information in the event of use or disclosure of such information.

***If our products infringe the intellectual property rights of others, we may incur damages and be required to incur the expense of obtaining a license.***

A substantial number of patents have already been issued to other biotechnology and pharmaceutical companies. To the extent that valid third party patent rights cover our products or services, we or our strategic collaborators would be required to seek licenses from the holders of these patents in order to manufacture, use or sell these products and services, and payments under them would reduce our profits from these products and services. We are currently unable to predict the extent to which we may wish or be required to acquire rights under such patents and the availability and cost of acquiring such rights, or whether a license to such patents will be available on acceptable terms or at all. There may be patents in the U.S. or in foreign countries or patents issued in the future that are unavailable to license on acceptable terms. Our inability to obtain such licenses may hinder our ability to manufacture and market our products.

***Pending and future product liability claims may adversely affect our business and our reputation.***

The administration of drugs in humans, whether in clinical studies or commercially, carries the inherent risk of product liability claims whether or not the drugs are actually the cause of an injury. Our products or product candidates may cause, or may appear to have caused, injury or dangerous drug interactions, and we may not learn about or understand those effects until the product or product candidate has been administered to patients for a prolonged period of time.

We are subject from time to time to lawsuits based on product liability and related claims. We cannot predict with certainty the eventual outcome of any pending or future litigation. We may not be successful in defending ourselves in the litigation and, as a result, our business could be materially harmed. These lawsuits may result in large judgments



or settlements against us, any of which could have a negative effect on our financial condition and business if in excess of our insurance coverage. Additionally, lawsuits can be expensive to defend, whether or not they have merit, and the defense of these actions may divert the attention of our management and other resources that would otherwise be engaged in managing our business.

**Table of Contents**

***Our operating results are subject to significant fluctuations.***

Our quarterly revenues, expenses and net income (loss) have fluctuated in the past and are likely to fluctuate significantly in the future due to the timing of charges and expenses that we may take. In recent periods, for instance, we have recorded charges that include:

the cost of restructurings;

impairments that we are required to take with respect to investments;

impairments that we are required to take with respect to fixed assets, including those that are recorded in connection with the sale of fixed assets;

inventory write-downs for failed quality specifications, charges for excess or obsolete inventory and charges for inventory write downs relating to product suspensions;

milestone payments under license and collaboration agreements; and

payments in connection with acquisitions and other business development activity.

Our revenues are also subject to foreign exchange rate fluctuations due to the global nature of our operations. We recognize foreign currency gains or losses arising from our operations in the period in which we incur those gains or losses. Although we have foreign currency forward contracts to hedge specific forecasted transactions denominated in foreign currencies, our efforts to reduce currency exchange losses may not be successful. As a result, currency fluctuations among our reporting currency, the U.S. dollar, and the currencies in which we do business will affect our operating results, often in unpredictable ways. Our net income may also fluctuate due to the impact of charges we may be required to take with respect to foreign currency hedge transactions. In particular, we may incur higher charges from hedge ineffectiveness than we expect or from the termination of a hedge relationship.

These examples are only illustrative and other risks, including those discussed in these *Risk Factors*, could also cause fluctuations in our reported earnings. In addition, our operating results during any one period do not necessarily suggest the anticipated results of future periods.

***Our portfolio of marketable securities is significant and subject to market, interest and credit risk that may reduce its value.***

We maintain a significant portfolio of marketable securities. Changes in the value of this portfolio could adversely affect our earnings. In particular, the value of our investments may decline due to increases in interest rates, downgrades in the corporate bonds and other securities included in our portfolio, instability in the global financial markets that reduces the liquidity of securities included in our portfolio, declines in the value of collateral underlying the mortgage and asset-backed securities included in our portfolio, and other factors. Each of these events may cause us to record charges to reduce the carrying value of our investment portfolio or sell investments for less than our acquisition cost. Although we attempt to mitigate these risks by investing in high quality securities and continuously monitoring our portfolio's overall risk profile, the value of our investments may nevertheless decline.

***Our level of indebtedness could adversely affect our business and limit our ability to plan for or respond to changes in our business.***

As of March 31, 2011, we had \$1.2 billion of outstanding indebtedness, and we may incur additional debt in the future. Our level of indebtedness could adversely affect our business by, among other things:

requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes, including business development efforts and research and development;

**Table of Contents**

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, thereby placing us at a competitive disadvantage compared to our competitors that may have less debt; and

increasing our vulnerability to adverse economic and industry conditions.

***Our business involves environmental risks, which include the cost of compliance and the risk of contamination or injury.***

Our business and the business of several of our strategic partners, including Genentech and Elan, involve the controlled use of hazardous materials, chemicals, biologics and radioactive compounds. Although we believe that our safety procedures for handling and disposing of such materials comply with state and federal standards, there will always be the risk of accidental contamination or injury. If we were to become liable for an accident, or if we were to suffer an extended facility shutdown, we could incur significant costs, damages and penalties that could harm our business. Biologics manufacturing also requires permits from government agencies for water supply and wastewater discharge. If we do not obtain appropriate permits, or permits for sufficient quantities of water and wastewater, we could incur significant costs and limits on our manufacturing volumes that could harm our business.

***Several aspects of our corporate governance and our collaboration agreements may discourage a third party from attempting to acquire us.***

Several factors might discourage a takeover attempt that could be viewed as beneficial to shareholders who wish to receive a premium for their shares from a potential bidder. For example:

Our Board of Directors has the authority to issue, without a vote or action of shareholders, shares of preferred stock and to fix the price, rights, preferences and privileges of those shares, which shares could be used to dilute the interest of a potential bidder.

Our collaboration agreements with Elan and Genentech respectively allow Elan to purchase our rights to TYSABRI and Genentech to purchase our rights to RITUXAN and certain anti-CD20 products developed under the agreement if we undergo a change of control and certain other conditions are met, which may limit our attractiveness to potential acquirers.

Our directors are elected to staggered terms, which prevent the entire board from being replaced in any single year. At our 2011 annual meeting, we are proposing that stockholders approve the declassification of our Board of Directors so that all directors will be elected annually.

***The possibility that activist shareholders may gain additional representation on or control of our Board of Directors could result in costs and disruption to our operations and cause uncertainty about the direction of our business.***

Entities affiliated with Carl Icahn commenced proxy contests in 2008, 2009 and 2010, resulting in three of their director nominees being elected to our Board of Directors. In addition, recent SEC rulemaking gives certain shareholders or groups of shareholders the ability to include director nominees and proposals relating to a shareholder nomination process in company proxy materials. As a result, we may face an increase in the number of shareholder nominees for election to our Board of Directors. In addition, the declassification of our Board of Directors if approved by our stockholders at our 2011 annual meeting may create instability at the Board and increase our vulnerability to hostile and potentially abusive takeover tactics.

Future proxy contests could be costly and time-consuming, disrupt our operations and divert the attention of management and our employees from executing our strategic plan. If there is disagreement among our directors, that may create uncertainty regarding the direction of our business and could impair our ability to effectively execute our strategic plan.

**Table of Contents****Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*****Recent Sales of Unregistered Securities**

On March 23, 2011, Genentech, Inc. converted 8,221 shares of our Series A Preferred Stock into 493,260 shares of common stock pursuant to the conversion terms of our Series A Preferred Stock. The shares of common stock were issued in accordance with the exemption provided by Section 3(a)(9) of the Securities Act of 1933.

**Issuer Purchases of Equity Securities**

The following table summarizes our common stock repurchase activity during the first quarter of 2011:

<b>Period</b>	<b>Total Number of Shares Purchased (#)</b>	<b>Average Price Paid per Share (\$)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Programs (#)</b>	<b>Approximate Number of Shares That May Yet Be Purchased Under Our Programs (#)</b>
<b>2011 Repurchase Program</b>				
<b>January 2011</b>				
<b>February 2011</b>	250,000	67.46	250,000	19,750,000
<b>March 2011</b>	2,547,600	70.04	2,547,600	17,202,400
<b>Total</b>	2,797,600	69.81		

On February 11, 2011, we announced that our Board of Directors authorized the repurchase of up to 20 million shares of our common stock. We expect to use this repurchase program principally to offset common stock issuance under our share-based compensation plans. This repurchase program does not have an expiration date. As of March 31, 2011, approximately 2.8 million shares of our common stock at a cost of approximately \$195.3 million have been repurchased under this program. From April 1, 2011 through April 21, 2011, we repurchased an additional 1.0 million shares under this program at a total cost of \$75.7 million. Approximately 16.2 million shares remain available for repurchase under the 2011 repurchase program.

**Item 6. *Exhibits***

The exhibits listed on the Exhibit Index immediately preceding such exhibits, which is incorporated herein by reference, are filed or furnished as part of this Quarterly Report on Form 10-Q.

**Table of Contents**

**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.

BIOGEN IDEC INC.

/s/ Paul J. Clancy  
Paul J. Clancy  
Executive Vice President and  
Chief Financial Officer

April 21, 2011

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.1*+	Severance Plan for EVP, Global Commercial Operations
31.1+	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1++	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101++	The following materials from Biogen Idec Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.

\* Management contract or compensatory plan or arrangement.

+ Filed herewith

++ Furnished herewith