

BIOGEN IDEC INC.  
Form 10-Q  
October 22, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

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

For the quarterly period ended September 30, 2014  
OR

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

Commission File Number 0-19311

BIOGEN IDEC INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

225 Binney Street, Cambridge, MA 02142

(617) 679-2000

(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting  
company)

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

The number of shares of the issuer's Common Stock, \$0.0005 par value, outstanding as of October 17, 2014, was 236,155,407 shares.



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 For the Quarterly Period Ended September 30, 2014  
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**NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements that are being made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 (the “Act”) with the intention of obtaining the benefits of the “Safe Harbor” provisions of the Act. These forward-looking statements may be accompanied by such words as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “potential,” “project,” “target,” “will” and other words and meaning. Reference is made in particular to forward-looking statements regarding:

- the anticipated amount, timing and accounting of revenues, contingent payments, milestone, royalty and other payments under licensing, collaboration or acquisition agreements, tax positions and contingencies, collectability of receivables, pre-approval inventory, cost of sales, research and development costs, compensation and other expenses, amortization of intangible assets, foreign currency forward contracts and impairment assessments;
- the potential impact of increased product competition in the multiple sclerosis (MS) and hemophilia markets;
- the timing, outcome and impact of administrative, regulatory, legal and other proceedings related to patents and other proprietary and intellectual property rights, tax audits, assessments and settlements, sales and promotional practices, product liability and other matters;
- the expected resolution and financial impact of our dispute with the Italian National Medicines Agency relating to sales of TYSABRI for the periods from February 2009 through January 2013;
- the costs, timing, potential approval and therapeutic scope of the development and commercialization of our pipeline products and the expected timing of launch of recently approved products;
- our intent to commit resources for research and development opportunities;
- the potential impact of healthcare reform in the U.S., implementation of provisions of the Affordable Care Act, and measures being taken worldwide designed to reduce healthcare costs to constrain the overall level of government expenditures, including the impact of pricing actions in Europe and elsewhere, and reduced reimbursement for our products;
- our ability to finance our operations and business initiatives and obtain funding for such activities; and
- the impact of new laws and accounting standards.

These forward-looking statements involve risks and uncertainties, including those that are described in the “Risk Factors” section of this report and elsewhere within this report that could cause actual results to differ materially from those reflected in such statements. You should not place undue reliance on these statements. Forward-looking statements speak only as of the date of this report. We do not undertake any obligation to publicly update any forward-looking statements.

**NOTE REGARDING COMPANY AND PRODUCT REFERENCES**

Throughout this report, “Biogen Idec,” the “Company,” “we,” “us” and “our” refer to Biogen Idec Inc. and its consolidated subsidiaries. References to “RITUXAN” refer to both RITUXAN (the trade name for rituximab in the U.S., Canada and Japan) and MabThera (the trade name for rituximab outside the U.S., Canada and Japan), and “ANGIOMAX” refers to both ANGIOMAX (the trade name for bivalirudin in the U.S., Canada and Latin America) and ANGIOX (the trade name for bivalirudin in Europe).

**NOTE REGARDING TRADEMARKS**

ALPROLIX<sup>®</sup>, AVONEX<sup>®</sup>, RITUXAN<sup>®</sup>, TECFIDERA<sup>®</sup>, and TYSABRI<sup>®</sup> are registered trademarks of Biogen Idec. ELOCTA<sup>™</sup>, ELOCTATE<sup>™</sup>, FUMADERM<sup>™</sup>, PLEGRIDY<sup>™</sup> and ZINBRYTA<sup>™</sup> are trademarks of Biogen Idec. The following are trademarks of the respective companies listed: ANGIOMAX<sup>®</sup> and ANGIOX<sup>™</sup> — The Medicines Company; ARZERRA<sup>®</sup> — Glaxo Group Limited; BENLYSTA<sup>®</sup> — GlaxoSmithKline Intellectual Property Limited; BETASERON<sup>®</sup> — Bayer Pharma AG; EXTAVIA<sup>®</sup> — Novartis AG; FAMPYRA<sup>™</sup> — Acorda Therapeutics, Inc.; GAZYVA<sup>®</sup> — Genentech, Inc.; and REBIF<sup>®</sup> — Ares Trading S.A.

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## PART I FINANCIAL INFORMATION

BIOGEN IDEC INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (unaudited, in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Product, net	\$2,117,366	\$1,453,554	\$5,916,423	\$3,935,251
Unconsolidated joint business	290,678	303,210	890,859	856,601
Other	103,402	71,016	255,367	174,497
Total revenues	2,511,446	1,827,780	7,062,649	4,966,349
Cost and expenses:				
Cost of sales, excluding amortization of acquired intangible assets	302,639	234,696	873,771	599,173
Research and development	417,174	410,017	1,393,331	1,021,820
Selling, general and administrative	570,436	405,584	1,658,732	1,189,194
Amortization of acquired intangible assets	122,431	99,998	382,515	233,524
Collaboration profit sharing	—	—	—	85,357
(Gain) loss on fair value remeasurement of contingent consideration	(49,433	) (97	) (46,213	) (2,983
Total cost and expenses	1,363,247	1,150,198	4,262,136	3,126,085
Gain on sale of rights	4,379	6,949	12,138	17,319
Income from operations	1,152,578	684,531	2,812,651	1,857,583
Other income (expense), net	(16,290	) (4,640	) (17,030	) (29,525
Income before income tax expense and equity in loss of investee, net of tax	1,136,288	679,891	2,795,621	1,828,058
Income tax expense	274,774	186,105	721,709	410,753
Equity in loss of investee, net of tax	5,394	6,170	14,932	12,270
Net income	856,120	487,616	2,058,980	1,405,035
Net income (loss) attributable to noncontrolling interests, net of tax	(738	) —	7,660	—
Net income attributable to Biogen Idec Inc.	\$856,858	\$487,616	\$2,051,320	\$1,405,035
Net income per share:				
Basic earnings per share attributable to Biogen Idec Inc.	\$3.63	\$2.06	\$8.67	\$5.93
Diluted earnings per share attributable to Biogen Idec Inc.	\$3.62	\$2.05	\$8.64	\$5.89
Weighted-average shares used in calculating:				
Basic earnings per share attributable to Biogen Idec Inc.	236,217	237,070	236,641	237,131
Diluted earnings per share attributable to Biogen Idec Inc.	236,972	238,349	237,449	238,508

See accompanying notes to these unaudited condensed consolidated financial statements.

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BIOGEN IDEC INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (unaudited, in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
	2014	2013	2014	2013	
Net income attributable to Biogen Idec Inc.	\$856,858	\$487,616	\$2,051,320	\$1,405,035	
Other comprehensive income:					
Unrealized gains (losses) on securities available for sale, net of tax of \$(6) and \$3,639 for the three months ended September 30, 2014 and 2013, respectively; and \$(3,021) and \$6,554 for the nine months ended September 30, 2014 and 2013, respectively	12	6,211	(5,127	) 11,171	
Unrealized gains (losses) on foreign currency forward contracts, net of tax of \$302 and \$(298) for the three months ended September 30, 2014 and 2013, respectively; and \$307 and \$1,182 for the nine months ended September 30, 2014 and 2013, respectively	48,242	(14,847	) 64,793	(5,549	)
Unrealized gains (losses) on pension benefit obligation	691	892	1,338	3,167	
Currency translation adjustment	(60,254	) 33,564	(71,246	) 17,201	
Total other comprehensive income (loss), net of tax	(11,309	) 25,820	(10,242	) 25,990	
Comprehensive income attributable to Biogen Idec Inc.	845,549	513,436	2,041,078	1,431,025	
Comprehensive income (loss) attributable to noncontrolling interests, net of tax	(738	) —	7,660	—	
Comprehensive income	\$844,811	\$513,436	\$2,048,738	\$1,431,025	

See accompanying notes to these unaudited condensed consolidated financial statements.

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BIOGEN IDEC INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (unaudited, in thousands, except per share amounts)

	As of September 30, 2014	As of December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,186,281	\$602,562
Marketable securities	675,065	620,167
Accounts receivable, net	1,091,232	824,406
Due from unconsolidated joint business, net	269,999	252,662
Inventory	753,063	659,003
Other current assets	396,471	226,134
Total current assets	4,372,111	3,184,934
Marketable securities	1,371,431	625,772
Property, plant and equipment, net	1,724,129	1,750,710
Intangible assets, net	4,129,754	4,474,653
Goodwill	1,541,204	1,232,916
Investments and other assets	565,513	594,350
Total assets	\$13,704,142	\$11,863,335
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of notes payable	\$3,220	\$3,494
Taxes payable	159,638	179,685
Accounts payable	233,629	219,913
Accrued expenses and other	1,544,160	1,355,187
Total current liabilities	1,940,647	1,758,279
Notes payable	583,977	592,433
Long-term deferred tax liability	90,357	232,554
Other long-term liabilities	658,276	659,231
Total liabilities	3,273,257	3,242,497
Commitments and contingencies		
Equity:		
Biogen Idec Inc. shareholders' equity		
Preferred stock, par value \$0.001 per share	—	—
Common stock, par value \$0.0005 per share	129	128
Additional paid-in capital	4,150,007	4,023,651
Accumulated other comprehensive loss	(37,987	) (27,745
Retained earnings	8,400,455	6,349,135
Treasury stock, at cost	(2,084,908	) (1,724,927
Total Biogen Idec Inc. shareholders' equity	10,427,696	8,620,242
Noncontrolling interests	3,189	596
Total equity	10,430,885	8,620,838
Total liabilities and equity	\$13,704,142	\$11,863,335

See accompanying notes to these unaudited condensed consolidated financial statements.



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BIOGEN IDEC INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (unaudited, in thousands)

	For the Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$2,058,980	\$1,405,035
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	530,508	373,357
Share-based compensation	119,508	104,851
Deferred income taxes	(229,273)	(166,187)
Other	(95,711)	(36,577)
Changes in operating assets and liabilities, net:		
Accounts receivable	(297,057)	(219,860)
Inventory	(119,890)	(182,814)
Accrued expenses and other current liabilities	19,283	110,794
Other changes in operating assets and liabilities, net	22,904	87,474
Net cash flows provided by operating activities	2,009,252	1,476,073
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	1,942,871	5,025,218
Purchases of marketable securities	(2,738,584)	(2,473,609)
Acquisition of TYSABRI rights	—	(3,262,719)
Purchases of property, plant and equipment	(180,854)	(167,628)
Contingent consideration related to Fumapharm AG acquisition	(175,000)	—
Other	(13,131)	(15,954)
Net cash flows used in investing activities	(1,164,698)	(894,692)
Cash flows from financing activities:		
Purchase of treasury stock	(359,981)	(400,308)
Proceeds from issuance of stock for share-based compensation arrangements	44,960	56,367
Repayment of borrowings under senior notes and other debt	(2,674)	(452,340)
Excess tax benefit from stock options	90,423	67,902
Other	(15,336)	670
Net cash flows used in financing activities	(242,608)	(727,709)
Net increase (decrease) in cash and cash equivalents	601,946	(146,328)
Effect of exchange rate changes on cash and cash equivalents	(18,227)	3,418
Cash and cash equivalents, beginning of the period	602,562	570,721
Cash and cash equivalents, end of the period	\$1,186,281	\$427,811

See accompanying notes to these unaudited condensed consolidated financial statements.

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BIOGEN IDEC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Summary of Significant Accounting Policies

Business Overview

Biogen Idec is a global biotechnology company focused on discovering, developing, manufacturing and marketing therapies for the treatment of neurodegenerative diseases, hematologic conditions and autoimmune disorders. We also collaborate on the development and commercialization of RITUXAN for the treatment of non-Hodgkin's lymphoma, chronic lymphocytic leukemia and other conditions and share profits and losses for GAZYVA for the treatment of chronic lymphocytic leukemia.

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, 2013 (2013 Form 10-K). Our accounting policies are described in the "Notes to Consolidated Financial Statements" in our 2013 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 our audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the three and nine months ended September 30, 2014, 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 where we are the primary beneficiary. For consolidated entities where we own or are entitled to less than 100% of the economics, we record net income (loss) attributable to noncontrolling interests in our condensed consolidated statements of income equal to the percentage of the economic or ownership interest retained in such entities by the respective noncontrolling parties. Intercompany balances and transactions are eliminated in consolidation.

In determining whether we are the primary beneficiary of an entity and therefore required to consolidate, 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 relationships and other arrangements. We continuously assess whether we are the primary beneficiary of a variable interest entity as changes to existing relationships or future transactions may result in us consolidating or deconsolidating one or more of our collaborators or partners.

Use of Estimates

The preparation of our condensed consolidated financial statements requires us to make estimates, judgments, and assumptions that may affect the reported amounts of assets, liabilities, equity, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments and methodologies. 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.

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 \$1,246.4 million and \$1,118.3 million as of September 30, 2014 and December 31, 2013, respectively.



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BIOGEN IDEC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Accounting for Share-Based Compensation

During the nine months ended September 30, 2014, we granted performance-vested restricted stock units under our share-based compensation program, which can be settled in cash or shares of our common stock (PUs) at the sole discretion of the Compensation and Management Development Committee of the Board of Directors. We have classified these awards as a liability as, historically, similar awards have been settled in cash. We record the estimated fair value of PUs as compensation expense over the requisite service period, which is generally the vesting period. Where awards are made with non-substantive vesting periods (for instance, where a portion of the award vests upon retirement eligibility), we estimate and recognize expense, net of forfeitures, over the period from the grant date to the date on which the employee is retirement eligible.

We apply an accelerated attribution method to recognize share-based compensation expense when accounting for our PUs and the fair value of the liability is remeasured at the end of each reporting period through expected settlement. Compensation expense associated with PUs is based upon the share price and the number of units expected to be earned after assessing the probability that certain performance criteria will be met and the associated targeted payout level that is forecasted will be achieved, net of estimated forfeitures. Cumulative adjustments are recorded each quarter to reflect changes in the share price and estimated outcome of the performance-related conditions until the date results are determined and settled.

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 May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. The new standard will be effective for us on January 1, 2017. We are currently evaluating the method of adoption and the potential impact that Topic 606 may have on our financial position and results of operations.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosure. The new standard expands secured borrowing accounting for repurchase-to-maturity transactions and repurchase financings and sets forth new disclosure requirements for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The new standard will be effective for us on April 1, 2015. The adoption of this standard is not expected to have an impact on our financial position or results of operations.

2. Accounts Receivable

Our accounts receivable primarily arise from product sales in the U.S. and Europe and mainly represent amounts due from our wholesale distributors, public hospitals and other government entities. Concentrations of credit risk with respect to our accounts receivable, 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. The majority of our accounts receivable have standard payment terms which generally require payment within 30 to 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, our historical reserves and write-offs of accounts receivable have not been significant.

The credit and economic conditions within Italy, Spain and Portugal, among other members of the E.U. continue to remain uncertain. Uncertain credit and economic conditions have generally led to a lengthening of time to collect our accounts receivable in some of these countries. In Portugal and select regions in Spain and Italy, where our collections

have slowed and a significant portion of these receivables are routinely being collected beyond our contractual payment terms and over periods in excess of one year, we have discounted our receivables and reduced related revenues based on the period of time that we estimate those amounts will be paid, to the extent such period exceeds one year, using the country's market-based borrowing rate for such period. The related receivables are classified at the time of sale as non-current assets. We accrete interest income on these receivables, which is recognized as a component of other income (expense), net within our condensed consolidated statements of income.

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

Our net accounts receivable balances from product sales in selected European countries are summarized as follows:

(In millions)	As of September 30, 2014		
	Current Balance Included within Accounts Receivable, net	Non-Current Balance Included within Investments and Other Assets	Total
Spain	\$58.2	\$ 10.9	\$69.1
Italy	\$68.1	\$ 1.5	\$69.6
Portugal	\$19.8	\$ 8.5	\$28.3

(In millions)	As of December 31, 2013		
	Current Balance Included within Accounts Receivable, net	Non-Current Balance Included within Investments and Other Assets	Total
Spain	\$113.3	\$ 6.8	\$120.1
Italy	\$76.1	\$ 2.4	\$78.5
Portugal	\$10.4	\$ 8.2	\$18.6

Approximately \$17.4 million and \$45.9 million of the total net accounts receivable balances for these countries were overdue more than one year as of September 30, 2014 and December 31, 2013, respectively. During the first quarter of 2014, we received approximately \$59.6 million in payments from Spain related to receivables aged greater than one year.

Pricing of TYSABRI in Italy - AIFA

In the fourth quarter of 2011, Biogen Idec Italia SRL, our Italian subsidiary, received a notice from the Italian National Medicines Agency (Agenzia Italiana del Farmaco or AIFA) stating that sales of TYSABRI for the period from mid-February 2009 through mid-February 2011 exceeded by EUR30.7 million a reimbursement limit established pursuant to a Price Determination Resolution (Price Resolution) granted by AIFA in December 2006. In December 2011, based on our interpretation that the Price Resolution by its terms only applied to the first 24 months of TYSABRI sales (which began in mid-February 2007), we filed an appeal against AIFA in administrative court in Rome, Italy seeking a ruling that the reimbursement limit does not apply to the periods beginning in mid-February 2009 and that the position of AIFA is unenforceable. That appeal is pending. Since being notified in the fourth quarter of 2011 that AIFA believed a reimbursement limit was in effect, we deferred revenue on sales of TYSABRI as if the reimbursement limit were in effect for each biannual period beginning in mid-February 2009.

In July 2013, we negotiated an agreement in principle with AIFA's Price and Reimbursement Committee that would have resolved all of AIFA's claims relating to sales of TYSABRI in excess of the reimbursement limit for the periods from February 2009 through January 2013 for an aggregate repayment of EUR33.3 million. The agreement was sent to the Avvocatura Generale dello Stata (Attorney General) for its opinion. As a result of this agreement in principle, we recorded a liability and reduction to revenue of EUR15.4 million at June 30, 2013. That adjustment approximated 50% of the claim related to the period from February 2009 through January 2011 as the likelihood of making a payment to resolve AIFA's claims for that period was then probable and the amount could be estimated. This agreement in principle was not finalized, and AIFA and Biogen Idec Italia SRL remain in discussions about a resolution relating to the claims at issue in that agreement in principle. We continue to believe that a settlement with AIFA relating to these claims is probable and have retained the EUR15.4 million liability recorded as of June 30, 2013.

In June 2014, AIFA approved a resolution, effective for a 24 month term, setting the price for TYSABRI in Italy. The resolution also eliminated the reimbursement limit from February 2013 going forward. As a result, we recognized

\$53.5 million of TYSABRI revenues related to the periods beginning February 2013 that were previously deferred. An aggregate amount of \$80.9 million remains deferred as of September 30, 2014 related to the periods from mid-February 2011 through January 2013.

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

## 3. Reserves for Discounts and Allowances

An analysis of the change in reserves for discounts and allowances is summarized as follows:

(In millions)	Discounts	Contractual Adjustments	Returns	Total
Balance, as of December 31, 2013	\$47.0	\$335.6	\$33.7	\$416.3
Current provisions relating to sales in current year	247.8	907.3	27.3	1,182.4
Adjustments relating to prior years	(0.2)	) (16.6)	) 15.4	(1.4)
Payments/credits relating to sales in current year	(200.1)	) (603.7)	) (1.5)	) (805.3)
Payments/credits relating to sales in prior years	(45.3)	) (269.0)	) (29.0)	) (343.3)
Balance, as of September 30, 2014	\$49.2	\$353.6	\$45.9	\$448.7

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

(In millions)	As of September 30, 2014	As of December 31, 2013
Reduction of accounts receivable	\$119.5	\$151.4
Component of accrued expenses and other	329.2	264.9
Total reserves	\$448.7	\$416.3

## 4. Inventory

The components of inventory are summarized as follows:

(In millions)	As of September 30, 2014	As of December 31, 2013
Raw materials	\$133.8	\$115.0
Work in process	478.6	435.4
Finished goods	140.7	108.6
Total inventory	\$753.1	\$659.0

As of September 30, 2014, our inventory includes \$5.6 million associated with our ZINBRYTA (Daclizumab High Yield Process) program, which has been capitalized in advance of regulatory approval. As of December 31, 2013, our inventory included \$93.7 million associated with our ALPROLIX, ELOCTATE and PLEGRIDY programs, which were capitalized in advance of regulatory approval. ALPROLIX, ELOCTATE and PLEGRIDY were subsequently approved during the nine months ended September 30, 2014.

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 5. Intangible Assets and Goodwill

## Intangible Assets

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

(In millions)	Estimated Life	As of September 30, 2014			As of December 31, 2013		
		Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Out-licensed patents	13-23 years	\$543.3	\$ (473.8 )	\$69.5	\$578.0	\$ (450.8 )	\$127.2
Developed technology	15-23 years	3,005.3	(2,339.8 )	665.5	3,005.3	(2,165.4 )	839.9
In-process research and development	Indefinite until commercialization	314.1	—	314.1	327.4	—	327.4
Trademarks and tradenames	Indefinite	64.0	—	64.0	64.0	—	64.0
Acquired and in-licensed rights and patents	6-17 years	3,274.4	(257.7 )	3,016.7	3,240.0	(123.8 )	3,116.2
Total intangible assets		\$7,201.1	\$ (3,071.3 )	\$4,129.8	\$7,214.7	\$ (2,740.0 )	\$4,474.7

For the three and nine months ended September 30, 2014, amortization of acquired intangible assets totaled \$122.4 million and \$382.5 million, respectively, as compared to \$100.0 million and \$233.5 million, respectively, in the prior year comparative periods. For the three months ended September 30, 2014, compared to the same period in 2013, the change in amortization of acquired intangible assets was primarily driven by a \$16.2 million impairment loss related to one of our in-process research and development (IPR&D) intangible assets as discussed further below. For the nine months ended September 30, 2014, compared to the same period in 2013, the change in amortization of acquired intangible assets was primarily driven by our acquisition of the TYSABRI rights from Elan Pharma International Ltd. (Elan), total impairment charges of \$50.9 million related to one of our out-licensed patents and one of our IPR&D intangible assets and lower expected lifetime revenues of AVONEX as discussed further below.

## Out-licensed Patents

Out-licensed patents to third-parties primarily relate to patents acquired in connection with the merger of Biogen, Inc. and IDEC Pharmaceuticals Corporation in 2003. During the nine months ended September 30, 2014, we recorded a charge of \$34.7 million related to the impairment of one of our out-licensed patents to reflect a change in its estimated fair value, due to a change in the underlying competitive market for that product, which occurred during the first quarter of 2014. The charge is included in amortization of acquired intangibles. The fair value of the intangible asset was based on discounted cash flow calculated using Level 3 fair value measurements and inputs including estimated revenues.

## Developed Technology

Developed technology primarily relates to our AVONEX product, which was recorded in connection with the merger of Biogen, Inc. and IDEC Pharmaceuticals Corporation in 2003. The net book value of this asset as of September 30, 2014 was \$656.0 million. We amortize this intangible asset using the economic consumption method based on actual and expected revenues generated from the sales of our AVONEX product.

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**In-process Research and Development (IPR&D)**

IPR&D represents the fair value assigned to research and development assets that we acquire that have not reached technological feasibility at the date of acquisition. Upon commercialization, we determine the estimated useful life.

An analysis of anticipated lifetime revenues and anticipated development costs is performed annually during our long-range planning cycle, which was updated in the third quarter of 2014. This analysis is based upon certain assumptions that we evaluate on a periodic basis, including anticipated future product sales, the expected impact of changes in the amount of development costs and the probabilities of our programs succeeding, the introduction of new products by our competitors and changes in our commercial and pipeline product candidates.

During the three months ended September 30, 2014, we updated the probabilities of success related to the early stage programs acquired through our recent acquisitions. The change in probability of success, combined with a delay in one of the projects, resulted in an impairment loss of \$16.2 million in one of our IPR&D assets during the three months ended September 30, 2014. In addition, we have adjusted the value of our contingent consideration liabilities to reflect these lower probabilities of success in connection with these earlier stage programs resulting in net gains of \$49.4 million in the three months ended September 30, 2014. The impairment charge was included in amortization of acquired intangible assets and the gains were recorded in (gain) loss on fair value remeasurement of contingent consideration. The fair values of the intangible assets and contingent consideration liabilities were based on a probability-adjusted discounted cash flow calculation using Level 3 fair value measurements and inputs including estimated revenues and probabilities of success.

**Acquired and In-licensed Rights and Patents**

Acquired and in-licensed rights and patents primarily relate to our acquisition of the TYSABRI rights from Elan. The net intangible asset capitalized related to this acquisition was \$3,178.3 million. In the second quarter of 2013, we began amortizing this intangible asset over the estimated useful life using an economic consumption method based on actual and expected revenues generated from the sales of our TYSABRI product. The net book value of this asset as of September 30, 2014 was \$2,957.4 million. For a more detailed description of this transaction, please read Note 2, Acquisitions to our consolidated financial statements included within our 2013 Form 10-K.

The increase in acquired and in-licensed rights and patents during the nine months ended September 30, 2014, was primarily related to the \$20.0 million contingent payment due to the former owners of Syntonix Pharmaceuticals, Inc., which became payable upon the approval of ALPROLIX in the U.S. by the U.S. Food and Drug Administration (FDA) in the first quarter of 2014. We have recorded an additional \$7.8 million of acquired in-licensed rights and patents related to this consideration, along with a corresponding deferred tax liability of the same amount.

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

## Estimated Future Amortization of Intangible Assets

Our amortization expense is based on the economic consumption of the intangible assets. Our most significant intangible assets are related to our AVONEX and TYSABRI products. Annually, during our long-range planning cycle, we perform an analysis of anticipated lifetime revenues of AVONEX and TYSABRI. This analysis is updated whenever events or changes in circumstances would significantly affect the anticipated lifetime revenues of either product.

Our most recent long range planning cycle was updated in the third quarter of 2014. Our analysis included an increase in the expected future product revenues of TYSABRI, resulting in a decrease in amortization expense as compared to prior quarters. Our analysis also included a decrease in the expected future product revenues of AVONEX, resulting in an increase in amortization expense as compared to prior quarters. The results of our TYSABRI and AVONEX analyses were impacted by changes in the estimated impact of TECFIDERA, as well as other existing and potential oral and alternative MS formulations, including PLEGRIDY, that may compete with TYSABRI and AVONEX. Based upon this recent analysis, the estimated future amortization for acquired intangible assets for the balance of 2014 and the next five years is expected to be as follows:

(In millions)	As of September 30, 2014
2014 (remaining three months)	\$104.2
2015	345.2
2016	309.5
2017	285.5
2018	284.5
2019	273.3
Total	\$1,602.2

## Goodwill

The following table provides a roll forward of the changes in our goodwill balance:

(In millions)	As of September 30, 2014	As of December 31, 2013
Goodwill, beginning of period	\$1,232.9	\$1,201.3
Increase to goodwill	308.3	35.7
Other	—	(4.1 )
Goodwill, end of period	\$1,541.2	\$1,232.9

The increase in goodwill during the nine months ended September 30, 2014 was related to \$350.0 million in contingent payments (exclusive of \$41.7 million in tax benefits) as we reached the \$2.0 billion cumulative sales level related to FUMADERM and TECFIDERA (together, Fumapharm Products) during the second quarter of 2014 and the \$3.0 billion cumulative sales level related to Fumapharm Products during the third quarter of 2014. For additional information related to future contingent payments, please read Note 19, Commitments and Contingencies to these condensed consolidated financial statements.

As of September 30, 2014, we had no accumulated impairment losses related to goodwill.

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

## 6. Fair Value Measurements

The tables below present information about our assets and liabilities that are regularly measured and carried at fair value and indicate the level within the fair value hierarchy of the valuation techniques we utilized to determine such fair value:

(In millions)	As of September 30, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$663.3	\$—	\$ 663.3	\$—
Marketable debt securities:				
Corporate debt securities	774.4	—	774.4	—
Government securities	1,085.0	—	1,085.0	—
Mortgage and other asset backed securities	187.0	—	187.0	—
Marketable equity securities	0.7	0.7	—	—
Venture capital investments	16.7	—	—	16.7
Derivative contracts	42.9	—	42.9	—
Plan assets for deferred compensation	35.2	—	35.2	—
Total	\$2,805.2	\$0.7	\$ 2,787.8	\$ 16.7
Liabilities:				
Derivative contracts	\$6.8	\$—	\$ 6.8	\$—
Contingent consideration obligations	213.2	—	—	213.2
Total	\$220.0	\$—	\$ 6.8	\$213.2
(In millions)	As of December 31, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	\$424.7	\$—	\$424.7	\$—
Marketable debt securities:				
Corporate debt securities	439.8	—	439.8	—
Government securities	674.7	—	674.7	—
Mortgage and other asset backed securities	131.4	—	131.4	—
Marketable equity securities	11.2	11.2	—	—
Venture capital investments	21.9	—	—	21.9
Derivative contracts	3.8	—	3.8	—
Plan assets for deferred compensation	22.7	—	22.7	—
Total	\$1,730.2	\$11.2	\$1,697.1	\$21.9
Liabilities:				
Derivative contracts	\$23.5	\$—	\$23.5	\$—
Contingent consideration obligations	280.9	—	—	280.9
Total	\$304.4	\$—	\$23.5	\$280.9

There have been no impairments of our assets measured and carried at fair value during the three and nine months ended September 30, 2014. In addition, there were no changes in valuation techniques or transfers between fair value measurement levels during the three and nine months ended September 30, 2014. During the three months ended

September 30, 2014, we updated the probabilities of success related to the early stage programs acquired through our recent acquisitions. We have adjusted the value of our contingent consideration liabilities to reflect these changes. For additional information, please read Note 5, Intangible Assets and Goodwill to these condensed consolidated financial statements. The fair value of Level 2 instruments classified as cash equivalents and marketable debt securities were determined through third party pricing services.

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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For a description of our validation procedures related to prices provided by third party pricing services, refer to Note 1, Summary of Significant Accounting Policies: Fair Value Measurements, to our consolidated financial statements included within our 2013 Form 10-K.

**Marketable Equity Securities and Venture Capital Investments**

Our marketable equity securities represent investments in publicly traded equity securities. Our venture capital investments, which are all Level 3 measurements, include investments in certain venture capital funds, accounted for at fair value, that primarily invest in small privately-owned, venture-backed biotechnology companies. These venture capital investments represented approximately 0.1% and 0.2% of total assets as of September 30, 2014 and December 31, 2013, respectively.

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

(In millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
Fair value, beginning of period	\$21.1	\$23.5	\$21.9	\$20.3
Unrealized gains included in earnings	0.3	3.8	5.3	10.5
Unrealized losses included in earnings	(3.8)	) —	(5.1)	) (2.0)
Purchases	—	0.3	—	0.3
Settlements	(0.9)	) —	(5.4)	) (1.5)
Fair value, end of period	\$16.7	\$27.6	\$16.7	\$27.6

**Debt Instruments**

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

(In millions)	As of September 30, 2014		As of December 31, 2013	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Notes payable to Fumedica	\$13.0	\$12.0	\$17.5	\$15.8
6.875% Senior Notes due March 1, 2018	637.9	575.2	647.9	580.1
Total	\$650.9	\$587.2	\$665.4	\$595.9

The fair value of our notes payable to Fumedica was estimated using market observable inputs, including current interest and foreign currency exchange rates. The fair value of our 6.875% Senior Notes was determined through market, observable, and corroborated sources. For additional information related to our debt instruments, please read Note 12, Indebtedness to our consolidated financial statements included within our 2013 Form 10-K.

**Contingent Consideration Obligations**

The following table provides a roll forward of the fair values of our contingent consideration obligations which includes Level 3 measurements:

(In millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
Fair value, beginning of period	\$279.1	\$281.0	\$280.9	\$293.9
Additions	—	—	—	—
Changes in fair value	(49.4)	) (0.1)	(46.2)	) (3.0)
Payments	(16.5)	) 0.1	(21.5)	) (9.9)
Fair value, end of period	\$213.2	\$281.0	\$213.2	\$281.0

As of September 30, 2014 and December 31, 2013, approximately \$193.9 million and \$251.9 million, respectively, of the fair value of our total contingent consideration obligations were reflected as components of other long-term liabilities within our condensed consolidated balance sheets with the remaining balances reflected as a component of

accrued expenses and

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

other. For additional information related to the changes in fair value, please read Note 5, Intangible Assets and Goodwill to these condensed consolidated financial statements.

## 7. Financial Instruments

## Marketable Securities

The following tables summarize our marketable debt and equity securities:

As of September 30, 2014 (In millions)	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Available-for-sale:				
Corporate debt securities				
Current	\$ 196.3	\$0.1	\$—	\$ 196.2
Non-current	578.1	0.6	(0.6	) 578.1
Government securities				
Current	478.7	0.1	—	478.6
Non-current	606.3	0.4	(0.2	) 606.1
Mortgage and other asset backed securities				
Current	0.1	—	—	0.1
Non-current	186.9	0.2	(0.1	) 186.8
Total marketable debt securities	\$2,046.4	\$1.4	\$(0.9	) \$2,045.9
Marketable equity securities, non-current	\$0.7	\$0.2	\$—	\$0.5
As of December 31, 2013 (In millions)	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Available-for-sale:				
Corporate debt securities				
Current	\$ 100.7	\$—	\$—	\$ 100.7
Non-current	339.1	0.4	(0.1	) 338.8
Government securities				
Current	519.5	—	—	519.5
Non-current	155.2	—	(0.1	) 155.3
Mortgage and other asset backed securities				
Current	—	—	—	—
Non-current	131.4	—	(0.1	) 131.5
Total marketable debt securities	\$1,245.9	\$0.4	\$(0.3	) \$1,245.8
Marketable equity securities, non-current	\$11.2	\$8.7	\$—	\$2.5

The following table summarizes our financial assets with maturities of less than 90 days from the date of purchase included within cash and cash equivalents on the accompanying condensed consolidated balance sheet:

(In millions)	As of September 30, 2014	As of December 31, 2013
Commercial paper	\$19.4	\$1.2
Overnight reverse repurchase agreements	209.2	22.4
Short-term debt securities	434.7	401.1
Total	\$663.3	\$424.7

The carrying values of our commercial paper, including accrued interest, overnight reverse repurchase agreements, and our short-term debt securities approximate fair value due to their short term maturities.



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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

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

The estimated fair value and amortized cost of our marketable debt securities available-for-sale by contractual maturity are summarized as follows:

(In millions)	As of September 30, 2014		As of December 31, 2013	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in one year or less	\$675.1	\$675.0	\$620.2	\$620.2
Due after one year through five years	1,262.0	1,261.8	573.1	572.9
Due after five years	109.3	109.1	52.6	52.7
Total available-for-sale securities	\$2,046.4	\$2,045.9	\$1,245.9	\$1,245.8

The average maturity of our marketable debt securities available-for-sale as of September 30, 2014 and December 31, 2013 was 14 months and 13 months, respectively.

## Proceeds from Marketable Debt Securities

The proceeds from maturities and sales of marketable debt securities and resulting realized gains and losses are summarized as follows:

(In millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Proceeds from maturities and sales	\$625.4	\$617.5	\$1,942.9	\$5,025.2
Realized gains	\$—	\$0.2	\$0.4	\$6.6
Realized losses	\$(0.1	) \$—	\$(0.3	) \$(2.1

## Strategic Investments

As of September 30, 2014 and December 31, 2013, our strategic investment portfolio was comprised of investments totaling \$47.4 million and \$56.9 million, respectively, which are included in investments and other assets in our accompanying condensed consolidated balance sheets.

Our strategic investment portfolio includes investments in marketable equity securities of certain biotechnology companies and our investments in venture capital funds accounted for at fair value which totaled \$17.4 million and \$33.1 million as of September 30, 2014 and December 31, 2013, respectively. Our strategic investment portfolio also includes other equity investments in privately-held companies and additional investments in venture capital funds accounted for under the cost method. The carrying value of these investments totaled \$30.0 million and \$23.8 million as of September 30, 2014 and December 31, 2013, respectively.

## Changes in Fair Value

During the three and nine months ended September 30, 2014 and 2013, we realized a net loss recorded through income of \$3.1 million and a net gain of \$1.8 million, respectively, on our strategic investment portfolio as compared to net gains of \$3.8 million and \$7.9 million, respectively, in the prior year comparative periods.

## Impairments

For the three and nine months ended September 30, 2014 and 2013, impairment charges on our marketable equity securities of certain biotechnology companies, investments in venture capital funds accounted for under the cost method and investments in privately-held companies were insignificant.

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 8. Derivative Instruments

## Foreign Currency Forward Contracts - Hedging Instruments

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 therefore subject to changes in foreign 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 September 30, 2014 and December 31, 2013 had durations of 1 to 15 months and 1 to 18 months, respectively. 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) (referred to as AOCI in the tables below). 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 revenues is summarized as follows:

Foreign Currency: (In millions)	Notional Amount	
	As of September 30, 2014	As of December 31, 2013
Euro	\$629.3	\$636.3
Canadian dollar	10.6	34.0
British pound sterling	20.9	72.3
Total foreign currency forward contracts	\$660.8	\$742.6

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 gains of \$41.5 million and losses of \$23.6 million as of September 30, 2014 and December 31, 2013, respectively. We expect all contracts to be settled over the next 15 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 contractual obligations. As of September 30, 2014 and December 31, 2013, credit risk did not change the fair value of our foreign currency forward contracts.

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

For the Three Months Ended September 30,

Net Gains/(Losses) Reclassified from AOCI into Operating Income (Effective Portion)			Net Gains/(Losses) Recognized into Net Income (Ineffective Portion)		
Location	2014	2013	Location	2014	2013
Revenue	\$ 2.9	\$ (7.3)	Other income (expense)	\$ (0.5)	) \$ (0.1)

For the Nine Months Ended September 30,

Net Gains/(Losses) Reclassified from AOCI into Operating Income (Effective Portion)			Net Gains/(Losses) Recognized into Net Income (Ineffective Portion)		
Location	2014	2013	Location	2014	2013
Revenue	\$ (7.1)	) \$ (6.1)	Other income (expense)	\$ (1.6)	) \$ 0.2



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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

## Foreign Currency Forward Contracts - 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 these outstanding foreign currency contracts was \$376.1 million and \$273.3 million as of September 30, 2014 and December 31, 2013, respectively. Net losses of \$7.7 million and \$11.5 million related to these contracts were recognized as a component of other income (expense), net, for three and nine months ended September 30, 2014, respectively, as compared to a net loss of \$0.2 million and a net gain of \$1.3 million, respectively, in the prior year comparative periods.

## Summary of Derivatives

While certain of our derivatives are subject to netting arrangements with our counterparties, we do not offset derivative assets and liabilities within our condensed consolidated balance sheets.

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

(In millions)	Balance Sheet Location	Fair Value As of September 30, 2014
Hedging Instruments:		
Asset derivatives	Other current assets	\$33.1
	Investments and other assets	\$7.8
Liability derivatives	Accrued expenses and other	\$0.2
	Other long-term liabilities	\$—
Other Derivatives:		
Asset derivatives	Other current assets	\$2.0
Liability derivatives	Accrued expenses and other	\$6.6
(In millions)	Balance Sheet Location	Fair Value As of December 31, 2013
Hedging Instruments:		
Asset derivatives	Other current assets	\$0.6
Liability derivatives	Accrued expenses and other	\$23.4
Other Derivatives:		
Asset derivatives	Other current assets	\$3.2
Liability derivatives	Accrued expenses and other	\$0.1

## 9. Indebtedness

## Credit Facility

In March 2014, our \$750.0 million senior unsecured revolving credit facility expired and was not renewed.

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 10. Equity

Total equity as of September 30, 2014 increased \$1,810.0 million compared to December 31, 2013. This increase was primarily driven by net income attributable to Biogen Idec Inc. of \$2,051.3 million and an increase in additional paid in capital resulting from our share-based compensation arrangements totaling \$126.4 million, partially offset by repurchases of our common stock totaling \$360.0 million.

## Share Repurchases

In February 2011, our Board of Directors authorized the repurchase of up to 20.0 million shares of common stock. This authorization does not have an expiration date. During the nine months ended September 30, 2014, we repurchased approximately 1.2 million shares of common stock at a cost of \$360.0 million for the purpose of share stabilization. During the nine months ended September 30, 2013, we repurchased approximately 2.0 million shares of common stock at a cost of \$400.3 million.

Approximately 2.9 million shares of our common stock remain available for repurchase under the 2011 authorization.

## Noncontrolling Interests

The following table reconciles equity attributable to noncontrolling interests (NCI):

(In millions)	For the Three Months		For the Nine Months		
	Ended September 30,		Ended September 30,		
	2014	2013	2014	2013	
Noncontrolling interests, beginning of period	\$3.9	\$0.6	\$0.6	\$2.3	
Net income (loss) attributable to NCI, net of tax	(0.7	) —	7.7	—	
Fair value of net assets and liabilities acquired and assigned to NCI	—	—	4.0	—	
Distribution to NCI	—	—	(9.1	) —	
Deconsolidation of NCI	—	—	—	(1.7	)
Noncontrolling interests, end of period	\$3.2	\$0.6	\$3.2	\$0.6	

## 11. Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in accumulated other comprehensive income (loss), net of tax by component:

(In millions)	Unrealized Gains (Losses) on Securities Available for Sale	Unrealized Gains (Losses) on Foreign Currency Forward Contracts	Unfunded Status of Postretirement Benefit Plans	Translation Adjustments	Total	
Balance, as of December 31, 2013	\$5.6	\$(23.7	) \$(19.6	) \$10.0	\$(27.7	)
Other comprehensive income (loss) before reclassifications	1.4	57.5	1.3	(71.2	) (11.0	)
Amounts reclassified from accumulated other comprehensive income (loss)	(6.5	) 7.3	—	—	0.8	
Net current period other comprehensive income (loss)	(5.1	) 64.8	1.3	(71.2	) (10.2	)
Balance, as of September 30, 2014	\$0.5	\$41.1	\$(18.3	) \$(61.2	) \$(38.0	)



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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

(In millions)	Unrealized Gains (Losses) on Securities Available for Sale	Unrealized Gains (Losses) on Foreign Currency Forward Contracts	Unfunded Status of Postretirement Benefit Plans	Translation Adjustments	Total
Balance, as of December 31, 2012	\$ 4.2	\$ (10.7	) \$ (21.7	) \$ (27.1	) \$ (55.3
Other comprehensive income (loss) before reclassifications	14.1	(12.0	) 3.2	17.2	22.5
Amounts reclassified from accumulated other comprehensive income (loss)	(2.9	) 6.4	—	—	3.5
Net current period other comprehensive income (loss)	11.2	(5.6	) 3.2	17.2	26.0
Balance, as of September 30, 2013	\$ 15.4	\$ (16.3	) \$ (18.5	) \$ (9.9	) \$ (29.3

The following table summarizes the amounts reclassified from accumulated other comprehensive income:

(In millions)	Income Statement Location	Amounts Reclassified from Accumulated Other Comprehensive Income			
		For the Three Months Ended September 30, 2014		For the Nine Months Ended September 30, 2013	
Gains (losses) on securities available for sale	Other income (expense)	\$ (0.1	) \$ 0.2	\$ 10.1	\$ 4.5
	Income tax benefit (expense)	—	(0.1	) (3.6	) (1.6
Gains (losses) on foreign currency forward contracts	Revenues	2.9	(7.3	) (7.1	) (6.1
	Income tax benefit (expense)	(0.1	) —	(0.2	) (0.3
Total reclassifications, net of tax		\$ 2.7	\$ (7.2	) \$ (0.8	) \$ (3.5

## 12. Earnings per Share

Basic and diluted earnings per share are calculated as follows:

(In millions)	For the Three Months Ended September 30, 2014		For the Nine Months Ended September 30, 2013	
Numerator:				
Net income attributable to Biogen Idec Inc.	\$ 856.9	\$ 487.6	\$ 2,051.3	\$ 1,405.0
Denominator:				
	236.2	237.1	236.6	237.1

Weighted average number of common shares  
outstanding

Effect of dilutive securities:

Stock options and employee stock purchase plan	0.1	0.2	0.1	0.4
Time-vested restricted stock units	0.5	0.7	0.5	0.7
Market stock units	0.2	0.3	0.2	0.3
Dilutive potential common shares	0.8	1.2	0.8	1.4
Shares used in calculating diluted earnings per share	237.0	238.3	237.4	238.5

Amounts excluded from the calculation of net income per diluted share because their effects were anti-dilutive were insignificant.

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

## 13. Share-based Payments

## Share-based Compensation Expense

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

(In millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
Research and development	\$24.2	\$20.7	\$78.1	\$69.6
Selling, general and administrative	34.7	39.9	115.5	119.5
Subtotal	58.9	60.6	193.6	189.1
Capitalized share-based compensation costs	(2.3	) (2.4	) (7.5	) (7.4
Share-based compensation expense included in total cost and expenses	56.6	58.2	186.1	181.7
Income tax effect	(16.6	) (17.4	) (55.4	) (54.3
Share-based compensation expense included in net income attributable to Biogen Idec Inc.	\$40.0	\$40.8	\$130.7	\$127.4

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

(In millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
Stock options	\$—	\$0.1	\$—	\$0.5
Market stock units	7.1	12.2	30.2	27.2
Time-vested restricted stock units	28.2	25.3	86.6	77.2
Cash settled performance units	15.2	20.6	50.6	76.8
Performance units	5.7	—	16.0	—
Employee stock purchase plan	2.7	2.4	10.2	7.4
Subtotal	58.9	60.6	193.6	189.1
Capitalized share-based compensation costs	(2.3	) (2.4	) (7.5	) (7.4
Share-based compensation expense included in total cost and expenses	\$56.6	\$58.2	\$186.1	\$181.7

## Grants Under Share-based Compensation Plans

The following table summarizes our equity grants to employees, officers and directors under our current stock plans:

	For the Nine Months	
	Ended September 30,	
	2014	2013
Market stock units	236,000	268,000
Cash settled performance shares	182,000	273,000
Performance units	57,000	—
Time-vested restricted stock units	437,000	708,000

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

The market stock units (MSUs) granted during the nine months ended September 30, 2014 primarily vest in three equal annual increments beginning on the anniversary of the grant date. For these grants, the performance multiplier is derived based on the stock price growth rate between the 30 calendar day average closing stock price on the grant date and the 30 calendar day average closing stock price leading up to and including each of the three vesting dates. These awards may ultimately earn between 0% and 200% of the target number of units granted based on actual stock performance. Any performance multiplier less than 50% results in no shares being earned for that respective tranche. During the first quarter of 2014, we began granting performance-vested restricted stock units (PUs), which can be settled in cash or shares of our common stock at the sole discretion of the Compensation and Management Development Committee of the Board of Directors. PUs awarded to employees vest in three equal annual increments beginning on the anniversary of the grant date. The number of PUs granted represents the target number of units that are eligible to be earned based on the attainment of certain performance measures established at the beginning of the performance period, which ends on December 31<sup>st</sup> of each year. Participants may ultimately earn between 0% and 200% of the target number of units granted based on the degree of actual performance metric achievement, with no units being earned if the performance multiplier is below 50%. Accordingly, additional PUs may be issued or currently outstanding PUs may be cancelled upon final determination of the number of units earned. Settlement of PUs is based on the 30 calendar day average closing stock price through each vesting date once the actual vested and earned number of units is known.

In addition, for the nine months ended September 30, 2014, approximately 150,000 shares were issued under our employee stock purchase plan compared to approximately 208,000 shares issued in the prior year comparative period.

## 14. Income Taxes

For the three and nine months ended September 30, 2014, our effective tax rate was 24.2% and 25.8% respectively, as compared to 27.4% and 22.5%, respectively, in the prior year comparative periods.

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

	For the Three Months		For the Nine Months		
	Ended September 30,		Ended September 30,		
	2014	2013	2014	2013	
Statutory rate	35.0	% 35.0	% 35.0	% 35.0	%
State taxes	1.2	2.5	1.2	3.7	
Taxes on foreign earnings	(9.3	) (6.6	) (8.9	) (7.7	)
Credits and net operating loss utilization	(0.6	) (2.2	) (0.8	) (3.0	)
Purchased intangible assets	0.7	1.9	1.1	1.6	
Manufacturing deduction	(2.0	) (2.5	) (1.9	) (8.0	)
Other permanent items	0.4	(0.3	) 0.4	1.0	
Other	(1.2	) (0.4	) (0.3	) (0.1	)
Effective tax rate	24.2	% 27.4	% 25.8	% 22.5	%

For the three months ended September 30, 2014, compared to the same period in 2013, the decrease in our income tax rate was due to a higher percentage of our income being earned outside the U.S. and an adjustment to our deferred tax liabilities to reflect a change in the effective tax rate of one of our subsidiaries, offset by a net adjustment to reflect the settlement of certain uncertain tax positions and the accrual of an uncertain tax position related to our transfer pricing items.

For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in our income tax rate was primarily the result of a 2013 change in our uncertain tax position related to our U.S. federal manufacturing deduction and our unconsolidated joint business described below, lower current year expenses eligible for the orphan drug credit, partially offset by a higher percentage of our 2014 income being earned outside the U.S.

The change in the state taxes, manufacturing deduction and other permanent items of the effective tax rate reconciliation for the periods disclosed in the table above is primarily related to changes in the valuation of our federal

and state uncertain tax positions in 2013, as discussed below under "Accounting for Uncertainty in Income Taxes".

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

## 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, various U.S. states, and foreign jurisdictions. With few exceptions, including the proposed disallowance we discuss below, we are no longer subject to U.S. federal tax examination for years before 2010 or state, local, or non-U.S. income tax examinations for years before 2004.

## Federal Uncertain Tax Positions

During 2013, we received updated technical guidance from the IRS concerning the calculation of our U.S. federal manufacturing deduction and overall tax classification of our unconsolidated joint business for the current and prior year filings. Based on this guidance we reevaluated the level of our unrecognized benefits related to uncertain tax positions, and recorded a \$49.8 million income tax benefit. This benefit was for a previously unrecognized position and related to years 2005 through 2012. We recorded an offsetting expense of \$10.3 million for non-income based state taxes, which was recorded in other income (expense) within our condensed consolidated statements of income. In October 2011, in conjunction with our examination, the IRS proposed a disallowance of approximately \$130.0 million in deductions for tax years 2007, 2008 and 2009 related to payments for services provided by our wholly owned Danish subsidiary located in Hillerød, Denmark. We believe that these items represent valid deductible business expenses. We have initiated a mutual agreement procedure between the IRS and SKAT (the Danish tax authorities) for the years 2001 through 2009, in an attempt to reach agreement on the issue. In addition, we have applied for a bilateral advanced pricing agreement for the years 2010 through 2014 to resolve similar issues for the subsequent years.

During the nine months ended September 30, 2014, the net effect of adjustments to our uncertain tax positions was a net expense of \$2.1 million. It is reasonably possible that we will adjust the value of our uncertain tax positions related to our unconsolidated joint business and certain transfer pricing issues as we receive additional information from various taxing authorities, including reaching settlements with the authorities. In addition, the IRS and other national tax authorities routinely examine our intercompany transfer pricing with respect to intellectual property related transactions and it is possible that they may disagree with one or more positions we have taken with respect to such valuations.

## 15. Other Consolidated Financial Statement Detail

## Other Income (Expense), Net

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

(In millions)	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2014	2013	2014	2013
Interest income	\$3.6	\$1.5	\$8.7	\$6.7
Interest expense	(7.4	) (6.6	) (22.1	) (25.5
Impairments of investments	—	—	—	(1.7
Gain (loss) on investments, net	(3.1	) 3.9	13.5	14.0
Foreign exchange gains (losses), net	(4.8	) (3.1	) (9.5	) (11.0
Other, net	(4.6	) (0.3	) (7.6	) (12.0
Total other income (expense), net	\$(16.3	) \$(4.6	) \$(17.0	) \$(29.5

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## Accrued Expenses and Other

Accrued expenses and other consists of the following:

(In millions)	As of September 30, 2014	As of December 31, 2013
Revenue-related rebates	\$ 329.2	\$ 264.9
Employee compensation and benefits	323.3	343.4
Current portion of contingent consideration obligations	219.3	29.0
Royalties and licensing fees	173.0	160.7
Deferred revenue	110.0	172.7
Clinical development expenses	61.1	55.2
Collaboration expenses	31.0	18.7
Construction in progress accrual	21.1	25.0
Other	276.2	285.6
Total accrued expenses and other	\$ 1,544.2	\$ 1,355.2

## Other Long-Term Liabilities

Other long-term liabilities includes long-term taxes payable totaling approximately \$187.7 million and long-term employee compensation and benefits of \$178.1 million.

## 16. 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.

## 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. Our anti-amyloid beta antibody, BIIB037 program, for Alzheimer's disease resulted from this collaboration. Based upon our current development plans, we may pay Neurimmune up to \$335.0 million in remaining milestone payments, as well as royalties on sales of any resulting commercial products.

Amounts that are incurred by Neurimmune for research and development expenses in support of the collaboration that we reimburse are reflected in research and development expense in our condensed consolidated statements of income. Future milestone payments will be reflected within our condensed consolidated statements of income as a charge to noncontrolling interest, net of tax, when such milestones are achieved.

For the three and nine months ended September 30, 2014, the collaboration incurred development expenses totaling \$7.4 million and \$29.1 million, respectively, which is reflected as research and development expense within our condensed consolidated statements of income, as compared to \$6.1 million and \$16.8 million, respectively, in the prior year comparative periods. In addition, in the second quarter of 2014, we recorded a \$10.0 million milestone payment in connection with the achievement of certain clinical goals in the Phase 1 trial of our BIIB037 program for Alzheimer's disease, which was reflected as a charge to noncontrolling interests, net of tax, within our condensed consolidated statements of income.

The assets and liabilities of Neurimmune are not significant to our financial position or results of operations as it is a research and development organization. We have provided no financing to Neurimmune other than contractually required amounts.



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Ataxion, Inc.

In February 2014, we paid \$1.6 million for preferred stock of Ataxion, Inc. (Ataxion) and entered into an option agreement which gives us the right to purchase all outstanding shares of Ataxion at any time until 30 days after delivery of a Phase 1 clinical trial study report. Ataxion is a discovery-stage biopharmaceutical company developing product candidates focused on a group of orphan genetic disorders referred to as hereditary ataxis. We committed to make additional investments in Ataxion's preferred shares of up to \$6.2 million if certain development milestones are achieved. If we exercise our option to purchase the outstanding shares of Ataxion, we could pay additional amounts upon achievement of clinical and commercial milestones.

In the Ataxion relationship, through our fixed price option to purchase the company, purchases of equity and presence on the program advisory committee, we are deemed to be the primary beneficiary of Ataxion, a variable interest entity. Therefore, we consolidate the results of Ataxion. As part of the initial consolidation of Ataxion, we recorded an IPR&D intangible asset of \$3.5 million and assigned that amount to minority interest within our shareholders' equity. The assets and liabilities of Ataxion are not significant to our financial position or results of operations as it is a research and development organization. We have provided no financing to Ataxion other than contractually required amounts.

Unconsolidated Variable Interest Entities

We have relationships with other variable interest entities that 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 with unconsolidated variable interest entities, please read Note 19, Investments in Variable Interest Entities to our consolidated financial statements included within our 2013 Form 10-K.

As of September 30, 2014 and December 31, 2013, the total carrying value of our investments in biotechnology companies that we have determined to be variable interest entities, but do not consolidate as we do not have the power to direct their activities, totaled \$6.4 million and \$5.5 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 condensed consolidated statements of income, as they are incurred.

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

17. Collaborative and Other Relationships

Eisai Co., Ltd.

On March 4, 2014 we entered into a collaboration with Eisai Co., Ltd. (Eisai) to jointly develop and commercialize two Eisai product candidates for the treatment of Alzheimer's disease. The agreement also provides Eisai with an option to jointly develop and commercialize two of our candidates for Alzheimer's disease, the anti-amyloid beta antibody BIIB037 and an anti-tau monoclonal antibody upon the exchange of clinical data on the current stage of development. For additional information related to our candidates for Alzheimer's disease, please read about our relationship with Neurimmune in Note 16, Investments in Variable Interest Entities to these condensed consolidated financial statements.

The collaboration initially will be centered on the co-development and co-commercialization of Eisai's two clinical candidates: E2609, a BACE inhibitor, and BAN2401, an anti-amyloid beta antibody. Eisai will serve as the operational and regulatory lead in the co-development of E2609 and BAN2401 and will pursue marketing authorizations for both compounds worldwide. In major markets, such as the U.S. and the E.U., we and Eisai will co-promote the products following marketing approval. Both companies will share overall cost, including research and development expenses and profits will be split between the companies. The agreement excluded commercialization of these candidates in Japan, but included an option for Eisai to receive an additional one-time payment from us in exchange for expanding joint development and commercialization activities to include Japan.



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BIOGEN IDEC INC. AND SUBSIDIARIES

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We paid \$100.0 million upon closing and recorded \$17.7 million reflecting the fair value of the options granted under the agreement, both of which were classified as research and development expense within our condensed consolidated statements of income. During the second quarter of 2014, Eisai exercised its option to expand the joint development and commercialization activities to include Japan and we paid Eisai an additional \$35.0 million. We recorded \$21.6 million in the second quarter of 2014 as research and development expense within our condensed consolidated statements of income, which represented the difference between the payment made upon exercise of the option and the fair value of that option recorded as research and development expense upon closing of the agreement in the first quarter of 2014. We could pay up to an additional \$1.0 billion based on the future achievement of certain development, regulatory and commercial milestones.

**Sangamo BioSciences, Inc.**

On February 22, 2014, we completed an exclusive worldwide research, development and commercialization collaboration and license agreement with Sangamo BioSciences, Inc. (Sangamo) under which both companies will develop and commercialize product candidates for the treatment of two inherited blood disorders, sickle cell disease and beta-thalassemia. The collaboration is currently in the research stage of development.

Under the terms of the agreement, we paid Sangamo an upfront payment of \$20.0 million in cash, with additional payments of up to \$300.0 million based on the achievement of certain development, regulatory and commercial milestones, plus royalties based on sales. We recorded the \$20.0 million upfront payment as research and development expenses. Under this arrangement, Sangamo will be responsible for identifying a product candidate for the treatment of beta-thalassemia and advancing that candidate through a completed Phase 1 human clinical trial, at which point we will assume responsibility for development. We will jointly develop a sickle cell disease candidate through the potential filing of an investigative new drug application, after which we will assume clinical responsibilities. We will lead the global development and commercialization efforts and Sangamo will have the option to assume co-promotion responsibilities in the U.S.

**Isis Pharmaceuticals, Inc.**

In January 2012, we entered into an exclusive, worldwide option and collaboration agreement with Isis Pharmaceuticals, Inc. (Isis) under which both companies will develop and commercialize Isis' product candidate for the treatment of spinal muscular atrophy (SMA). Under the agreement, we agreed to pay up to \$45.0 million related to the clinical development of ISIS-SMNRx. For additional information related to our agreements with Isis, please read Note 20, Collaborative and Other Relationships to our consolidated financial statements included within our 2013 Form 10-K.

In January 2014, we amended the agreement and agreed to pay additional clinical trial costs up to approximately \$45.0 million related to the development of ISIS-SMNRx through studies which Isis will be responsible for performing. In October 2014, we amended the development plan of ISIS-SMNRx and agreed to pay up to an additional \$23.0 million in clinical trial costs related to the development of ISIS-SMNRx. Consistent with the initial agreement, Isis remains responsible for conducting the pivotal/Phase 3 trials. We will recognize these payments as research and development expenses as the trial costs are incurred. We are providing input on the clinical trial design and regulatory strategy for the development of ISIS-SMNRx. We have an option to license ISIS-SMNRx following completion and data review of the first successful Phase 2/3 trial or completion of both Phase 2/3 trials.

**Samsung Bioepis**

In February 2012, we entered into a joint venture agreement with Samsung BioLogics Co. Ltd. (Samsung Biologics), establishing an entity, Samsung Bioepis, to develop, manufacture and market biosimilar pharmaceuticals. Under the terms of the joint venture agreement, Samsung Biologics agreed to contribute 280.5 billion South Korean won (approximately \$250.0 million) for an 85% stake in Samsung Bioepis and we agreed to contribute approximately 49.5 billion South Korean won (approximately \$45.0 million) for a 15% ownership interest. Our investment is limited to this contribution as we have no obligation to provide any additional funding. As of September 30, 2014, our ownership interest has decreased to approximately 12% as Samsung Bioepis secured additional equity financing from

Samsung Biologics and we did not participate in such financing. We maintain an option to purchase additional stock in Samsung Bioepis that would allow us to increase our ownership percentage up to 49.9%. The exercise of this option is within our control and is based on paying for 49.9% of the total investment made to Samsung Bioepis in excess of what we have already contributed, plus interest.

On December 17, 2013, pursuant to our rights under the joint venture agreement with Samsung Biologics, we entered into an agreement with Samsung Bioepis to commercialize anti-TNF biosimilar product candidates in Europe. Under the terms of this agreement, we paid \$36.0 million, which was recorded as a research and development expense within our condensed consolidated statements of income as the programs they relate to had not achieved regulatory approval. Samsung Bioepis is

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## BIOGEN IDEC INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited, continued)

eligible to receive an additional \$85.0 million in additional milestones related to clinical development and regulatory approval of the product candidates. Upon commercialization, there will be a 50% profit share with Samsung Bioepis. As of September 30, 2014 and December 31, 2013, the carrying value of our investment in Samsung Bioepis totaled 11.1 billion and 25.2 billion South Korean won (approximately \$11.0 million and \$23.9 million), respectively, which is classified as a component of investments and other assets within our condensed consolidated balance sheets. Based on our level of influence over Samsung Bioepis, we account for this investment under the equity method of accounting and we recognize our share of the results of operations related to our investment in Samsung Bioepis one quarter in arrears when the results of the entity become available, which is reflected as equity in loss of investee, net of tax within our condensed consolidated statements of income. During the three and nine months ended September 30, 2014, we recognized a loss on our investment of \$5.4 million and \$14.9 million, respectively, as compared to \$6.2 million and \$12.3 million, respectively, in the prior year comparative periods.

Simultaneous with the formation of Samsung Bioepis, we also entered into a license agreement, a technical development services agreement and a manufacturing agreement with Samsung Bioepis. For the three and nine months ended September 30, 2014, we recognized \$21.3 million and \$57.8 million, respectively, in other revenues in relation to these services, as compared to \$4.3 million and \$18.5 million, respectively, in the prior year comparative periods, which is reflected as a component of other revenues within our condensed consolidated statement of income. For additional information related to our other significant collaboration arrangements, please read Note 20, Collaborative and Other Relationships to our consolidated financial statements included within our 2013 Form 10-K.

## 18. Litigation

'755 Patent Litigation

On May 27, 2010, Bayer Healthcare Pharmaceuticals Inc. (Bayer) filed a lawsuit against us in the U.S. District Court for the District of New Jersey seeking a declaratory judgment that they do not infringe our 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, and that the patent is invalid and seeking monetary relief in the form of attorneys' fees, costs and expenses. On May 28, 2010, Biogen Idec MA Inc. (BIMA) filed a lawsuit in the U.S. District Court for 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".

Bayer, Pfizer, Novartis and EMD Serono have all filed counterclaims in the Consolidated '755 Patent Actions seeking declaratory judgments of patent invalidity and non-infringement, and seeking monetary relief in the form of costs and attorneys' fees, and EMD Serono and Bayer have each 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. No trial date has been set.

Italian National Medicines Agency

In the fourth quarter of 2011, Biogen Idec Italia SRL received notice from the Italian National Medicines Agency (Agenzia Italiana del Farmaco or AIFA) that sales of TYSABRI after mid-February 2009 exceeded a reimbursement limit established pursuant to a Price Determination Resolution (Price Resolution) granted by AIFA in December 2006. On December 23, 2011, we filed an appeal in the Regional Administrative Tribunal of Lazio (Il Tribunale Amministrativo Regionale per il Lazio) in Rome seeking a ruling that the reimbursement limit in the Price Resolution should apply as written to only "the first 24 months" of TYSABRI sales, which ended in mid-February 2009. The appeal is still pending. Earlier this year AIFA approved a resolution affirming that there is no reimbursement limit from and after February 2013. AIFA and Biogen Idec Italia SRL are discussing a possible resolution for the period from mid-February 2009 through January 2013.

Average Manufacturer Price Litigation

On September 6, 2011, we and several other pharmaceutical companies were served with a complaint originally filed under seal on October 28, 2008 in the United States District Court for the Eastern District of Pennsylvania by Ronald Streck on behalf of himself and the United States, 24 states and the District of Columbia (collectively the “States”). The complaint alleges that Biogen Idec violated the False Claims Act, 31 U.S.C. § 3729 et seq. and local statutory counterparts by under reporting Average Manufacturer Price (AMP) information to the Centers for Medicare and Medicaid Services. The United States and the

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## BIOGEN IDEC INC. AND SUBSIDIARIES

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States have declined to intervene. We believe we have good and valid defenses. We have not formed an opinion that an unfavorable outcome under the remaining claims is either “probable” or “remote”.

**Government Matters**

We have learned that state and federal governmental authorities are investigating our sales and promotional practices and have received related subpoenas. We have also received a subpoena from the federal government for documents relating to our relationship with certain pharmacy benefit managers. We are cooperating with the government in these matters.

**Qui Tam Litigation**

In August, 2012, we learned that a relator, on behalf of the United States and certain states, filed a suit under seal on February 17, 2011 against us, Elan Corporation, plc, and Elan Pharmaceuticals, Inc. in the United States District Court for the Western District of Virginia. We have neither seen nor been served with the complaint, but understand that it was filed under the Federal False Claims Act.

**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 condition.

**19. Commitments and Contingencies**

In 2006, we acquired Fumapharm AG. As part of this acquisition we acquired Fumapharm Products. We are required to make additional contingent payments to former shareholders of Fumapharm AG based on the attainment of certain cumulative sales levels of Fumapharm Products, with the amount of each payment based on the level of total net sales of Fumapharm Products in the prior twelve month period, as defined in the acquisition agreement:

Prior 12 Month Sales	Cumulative Sales Level			Each additional \$1.0B up to \$20.0B
	\$1.0B	\$2.0B	\$3.0B	
	Payment Amounts (In Millions)			
< \$500 million	\$—	\$—	\$—	\$—
\$500 million - \$1.0 billion	25.0	50.0	50.0	50.0
\$1.0 billion - \$1.5 billion	50.0	100.0	100.0	100.0
\$1.5 billion - \$2.0 billion	—	150.0	150.0	150.0
\$2.0 billion - \$2.5 billion	—	200.0	200.0	200.0
\$2.5 billion - \$3.0 billion	—	—	250.0	250.0
> \$3.0 billion	—	—	—	300.0

These payments 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. Any portion of the payment which is tax deductible will be recorded as a reduction to goodwill. Payments are due within 60 days following the end of the quarter in which the applicable cumulative sales level has been reached. During the nine months ended September 30, 2014, we paid a \$25.0 million contingent payment as we reached the \$1.0 billion cumulative sales level related to the Fumapharm Products in 2013, a \$150.0 million contingent payment as we reached the \$2.0 billion cumulative sales level related to Fumapharm Products in the second quarter of 2014 and accrued \$200.0 million upon reaching \$3.0 billion in total cumulative sales of Fumapharm Products, in the third quarter of 2014.

**20. Segment Information**

We operate as one operating segment, which is the business of discovering, developing, manufacturing and marketing therapies for the treatment of neurodegenerative diseases, hematologic conditions and autoimmune disorders and,

therefore, our chief operating decision-maker manages the operations of our company as a single operating segment.

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## 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, 2013 (2013 Form 10-K). Certain totals may not sum due to rounding.

## Executive Summary

## Introduction

Biogen Idec is a global biotechnology company focused on discovering, developing, manufacturing and marketing therapies for the treatment of neurodegenerative diseases, hematologic conditions and autoimmune disorders. We also collaborate on the development and commercialization of RITUXAN for the treatment of non-Hodgkin's lymphoma, chronic lymphocytic leukemia and other conditions and share profits and losses for GAZYVA for the treatment of chronic lymphocytic leukemia.

Our current revenues depend upon continued sales of our principal products, AVONEX, TECFIDERA, TYSABRI, and RITUXAN. We may be substantially dependent on sales from our principal products for many years, including an increasing reliance on sales of TECFIDERA as we expand into additional markets. In the longer term, our revenue growth will be dependent upon the successful clinical development, regulatory approval and launch of new commercial products, our ability to obtain and maintain patents and other rights related to our marketed products and assets originating from our research and development efforts, and successful execution of external business development opportunities. 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.

## 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 September 30,		
	2014 (1)	2013	Change %
Total revenues	\$2,511.4	\$1,827.8	37.4 %
Income from operations	\$1,152.6	\$684.5	68.4 %
Net income attributable to Biogen Idec Inc.	\$856.9	\$487.6	75.7 %
Diluted earnings per share attributable to Biogen Idec Inc.	\$3.62	\$2.05	76.7 %

Total revenues for the three months ended September 30, 2014, includes \$25.3 million of net revenues related to sales of ALPROLIX for the treatment of hemophilia B and \$21.6 million of net revenues related to sales of (1) ELOCTATE for the treatment of hemophilia A. Commercial sales of ALPROLIX commenced in the second quarter of 2014 and commercial sales of ELOCTATE commenced in the third quarter of 2014.

As described below under "Results of Operations," our operating results for the three months ended September 30, 2014 reflect the following:

• Worldwide AVONEX revenues totaled \$741.8 million in the third quarter of 2014, representing an increase of 1.1% over the same period in 2013.

• Worldwide PLEGRIDY revenues totaled \$3.4 million in the third quarter of 2014, all of which were derived from the E.U.

• Worldwide TECFIDERA revenues totaled \$787.1 million in the third quarter of 2014, representing an increase of 174.8% over the same period in 2013.

• Worldwide TYSABRI revenues totaled \$501.2 million in the third quarter of 2014, representing an increase of 25.0% over the same period in 2013.

• Worldwide ALPROLIX revenues totaled \$25.3 million in the third quarter of 2014.

• Worldwide ELOCTATE revenues totaled \$21.6 million in the third quarter of 2014, all of which were derived from the U.S.



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Our share of RITUXAN and GAZYVA operating profits totaled \$290.7 million in the third quarter of 2014, representing a decrease of 4.1% over the same period in 2013.

Total cost and expenses increased 18.5% in the third quarter of 2014, compared to the same period in 2013. This increase resulted from a 40.6% increase in selling, general and administrative expense, a 28.9% increase in cost of sales, a 1.7% increase in research and development expense, a 22.4% increase in the amortization of acquired intangible assets and an increase in the gain on fair value remeasurement of contingent consideration.

Higher selling, general and administrative expense resulted from increased costs incurred in connection with our recent product launches. The increase in cost of sales is primarily driven by higher unit sales volume, including recent product launches and higher contingent payments due to Elan. The increase in research and development expense was primarily related to an increase in costs incurred in connection with our early stage programs, partially offset by an upfront payment made to Isis in September 2013 upon entering into a six year research collaboration.

During the three months ended September 30, 2014, we updated the probabilities of success related to the early stage programs acquired through our recent acquisitions. This change in probability of success, combined with a delay in one of the projects, resulted in an impairment loss in one of our in-process research and development (IPR&D) assets that was included in amortization of acquired intangible assets. In addition, we have adjusted the value of our contingent consideration liabilities related to those acquired early stage programs resulting in net gains that were recorded in (gain) loss on fair value remeasurement of contingent consideration.

We generated \$2,009.3 million of net cash flows from operations for the nine months ended September 30, 2014, which were primarily driven by earnings offset by an increase in working capital. Cash, cash equivalents and marketable securities totaled approximately \$3,232.8 million as of September 30, 2014.

**Business Environment**

We conduct our business within the biopharmaceutical industry, which is highly competitive. Many of our competitors are working to develop or have commercialized products similar to those we market or are developing. In addition, the commercialization of certain of our own approved MS products and pipeline product candidates may negatively impact future sales of our MS products. Our products may also face increased competitive pressures from the emergence of biosimilars, gene therapies, generic versions or related prodrug derivatives.

Global economic conditions continue to present challenges for our industry. Governments in some international markets where we operate have implemented austerity measures to constrain the overall level of government expenditures. These measures, which include efforts aimed at reforming health care coverage and reducing health care costs, particularly in certain countries in Europe, continue to exert pressure on product pricing, have delayed reimbursement for some of our products, and in some countries, has negatively impacted our revenues and results of operations. In the U.S., federal and state legislatures, health agencies and third-party payors continue to focus on containing the cost of health care. Legislative and regulatory proposals and enactments to reform health care insurance programs could significantly influence the manner in which our products are prescribed and purchased. It is possible that additional health care reform measures will be adopted in the future, which could result in increased pricing pressure and reduced reimbursement for our products and otherwise have an adverse impact on our financial position or 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.

**The Patient Protection and Affordable Care Act**

The Patient Protection and Affordable Care Act (PPACA) included a significant expansion of the Medicaid program, as well as the creation of new state-based health benefit exchanges, or marketplaces, through which individuals and small businesses may purchase health insurance. Premium and cost-sharing credits and subsidies are available to those who qualify based on income. Marketplace plans began to enroll new members in October 2013, and coverage began on January 1, 2014. Although the effects of the legislation are still unclear, PPACA could result in a greater number of individuals with health insurance under Medicaid and the marketplace health plans. The impact on manufacturers, including us, will depend in part on the formulary and benefit design decisions made by insurance sponsors or plans participating in the programs. It is possible that individuals who were previously unable to access insurance may now become insured, thus increasing coverage for our products. This potential increase in coverage, however, may be offset by the added discounts that could be required in these channels as well as the number of patients who over time

move from commercial insurance to the health insurance marketplaces. It is also possible that we may need to provide discounts or rebates to such plans in order to maintain favorable formulary access for our products for this patient population, which could have an adverse impact on our sales and results of operations.

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During the three months ended September 30, 2014, the Internal Revenue Service issued final regulations related to the Branded Pharmaceutical Drug (BPD) Fee, which had the effect of changing the recognition of the fee for accounting purposes, from the period in which the fee was paid, to the period when the sale occurs. Our products that are subject to the BPD fee include PLEGRIDY, TECFIDERA, TYSABRI and RITUXAN. As a result of these final regulations, we recognized an incremental BPD fee of \$39.5 million during the three months ended September 30, 2014 for the periods 2013 through the end of this quarter. The final regulations did not change the timing of payments.

## Key Pipeline and Product Developments

## PLEGRIDY

In July 2014, the European Commission (EC) granted marketing authorization for PLEGRIDY as a treatment for adults with relapsing forms of MS (RRMS). PLEGRIDY was also approved by the U.S. Food and Drug Administration (FDA) as a treatment for adults with RRMS in August 2014.

## TECFIDERA

In February 2014, the EC approved the use of TECFIDERA in the E.U. as a first-line oral treatment for people with RRMS.

## TYSABRI

In March 2014, we received marketing approval for TYSABRI in Japan.

## ZINBRYTA (Daclizumab High Yield Process)

In June 2014, we announced positive top-line results from the Phase 3 DECIDE clinical trial, which investigated ZINBRYTA as a potential once-monthly, subcutaneous treatment for RRMS. Results showed that ZINBRYTA was superior on the study's primary endpoint, demonstrating a statistically significant reduction in annualized relapse rates when compared to interferon beta-1a (AVONEX).

## ALPROLIX

In March 2014, the FDA approved the use of ALPROLIX for the control and prevention of bleeding episodes, perioperative management and routine prophylaxis in adults and children with hemophilia B. ALPROLIX was also approved for the treatment of hemophilia B in Canada in March 2014, Australia in May 2014 and Japan in June 2014.

## ELOCTATE

In June 2014, the FDA approved the use of ELOCTATE for the control and prevention of bleeding episodes, perioperative management and routine prophylaxis in adults and children with hemophilia A. ELOCTATE was also approved for the treatment of hemophilia A in Australia in June 2014 and Canada in August 2014.

In October 2014, we submitted a marketing authorization application for ELOCTA to the European Medicines Agency. ELOCTA is the approved trade name for ELOCTATE in the E.U.

## Results of Operations

## Revenues

Revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended September 30,				For the Nine Months Ended September 30,							
	2014		2013		2014		2013					
Product revenues:												
United States	\$1,442.5	57.4	%	\$972.9	53.2	%	\$3,956.0	56.0	%	\$2,465.4	49.6	%
Rest of world	674.8	26.9	%	480.7	26.3	%	1,960.4	27.8	%	1,469.9	29.6	%
Total product revenues	2,117.3	84.3	%	1,453.6	79.5	%	5,916.4	83.8	%	3,935.3	79.2	%
Unconsolidated joint business	290.7	11.6	%	303.2	16.6	%	890.9	12.6	%	856.6	17.2	%
Other revenues	103.4	4.1	%	71.0	3.9	%	255.3	3.6	%	174.5	3.5	%
Total revenues	\$2,511.4	100.0	%	\$1,827.8	100.0	%	\$7,062.6	100.0	%	\$4,966.4	100.0	%

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## Product Revenues

Product revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended September 30,				For the Nine Months Ended September 30,				
	2014		2013		2014		2013		
Multiple Sclerosis (MS):									
AVONEX	\$741.8	35.0 %	\$733.4	50.5 %	\$2,277.1	38.5 %	\$2,253.9	57.3 %	
PLEGRIDY	3.4	0.2 %	—	— %	3.4	0.1 %	—	— %	
TECFIDERA	787.1	37.2 %	286.4	19.7 %	1,993.2	33.7 %	478.5	12.2 %	
TYSABRI	501.2	23.7 %	401.0	27.6 %	1,475.6	24.9 %	1,100.0	28.0 %	
Hemophilia:									
ALPROLIX	25.3	1.2 %	—	— %	35.7	0.6 %	—	— %	
ELOCTATE	21.6	1.0 %	—	— %	21.6	0.4 %	—	— %	
Other product revenues	36.9	1.7 %	32.8	2.3 %	109.8	1.9 %	102.9	2.6 %	
Total product revenues	\$2,117.3	100.0 %	\$1,453.6	100.0 %	\$5,916.4	100.0 %	\$3,935.3	100.0 %	

## Multiple Sclerosis (MS)

## AVONEX and PLEGRIDY

Revenues from AVONEX and PLEGRIDY are summarized as follows:

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
AVONEX:						
United States	\$482.3	\$456.7	5.6 %	\$1,456.0	\$1,427.6	2.0 %
Rest of world	259.5	276.7	(6.2) %	821.1	826.3	(0.6) %
Total AVONEX revenues	\$741.8	\$733.4	1.1 %	\$2,277.1	\$2,253.9	1.0 %
PLEGRIDY (1):						
United States	\$—	\$—	**	\$—	\$—	**
Rest of world	3.4	—	**	3.4	—	**
Total PLEGRIDY revenues	\$3.4	\$—	**	\$3.4	\$—	**

(1) Commercial sales of PLEGRIDY in the E.U. commenced in the third quarter of 2014 and are expected to commence in the U.S. in the fourth quarter of 2014.

For the three and nine months ended September 30, 2014, compared to the same periods in 2013, the increase in U.S. AVONEX revenues was primarily due to price increases, partially offset by decreases in unit sales volume of 5% and 11%, respectively, which were due in part to patients transitioning to oral therapies including TECFIDERA.

For the three months ended September 30, 2014, compared to the same period in 2013, the decrease in rest of world AVONEX revenues was primarily due to decreased unit demand in Europe primarily attributable to patients transitioning to oral therapies including TECFIDERA, decreased unit demand in the Emerging Markets region and pricing reductions in some countries, partially offset by a favorable net price in Germany due to a lower mandatory rebate. For the nine months ended September 30, 2014, compared to the same period in 2013, the decrease in rest of world AVONEX revenues was primarily due to decreased unit demand in Europe primarily attributable to patients transitioning to oral therapies including TECFIDERA and pricing reductions in some countries, partially offset by increased unit demand in the Emerging Markets region and a favorable net price in Germany due to a lower mandatory rebate. Rest of world AVONEX revenue for the three and nine months ended September 30, 2014, compared to the same periods in 2013, also reflects gains recognized in relation to the settlement of certain cash flow hedge instruments under our foreign currency hedging program as well as the positive impact of foreign currency exchange rates.



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We expect AVONEX to continue facing increased competition in the MS marketplace in both the U.S. and rest of world. We and a number of other companies have commercialized or are working to develop additional treatments for MS, including oral and other alternative formulations that may compete with AVONEX. The launch and growth of TECFIDERA and PLEGRIDY and the commercialization of certain of our own potential products may also negatively impact future sales of AVONEX. Increased competition also may lead to reduced unit sales of AVONEX, as well as increasing price pressures.

**TECFIDERA**

Revenues from TECFIDERA are summarized as follows:

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,			
	2014	2013	Change %	2014	2013	Change %	
United States (1)	\$ 638.3	\$ 284.0	124.8	% \$ 1,683.5	\$ 474.3	254.9	%
Rest of world (2)	148.8	2.4	**	309.7	4.2	**	
Total TECFIDERA revenues	\$ 787.1	\$ 286.4	174.8	% \$ 1,993.2	\$ 478.5	316.6	%

(1) U.S. sales began in April 2013.

(2) Commercial sales of TECFIDERA in Germany commenced in the first quarter of 2014.

For the three and nine months ended September 30, 2014, compared to the same periods in 2013, the increase in U.S. TECFIDERA revenues was primarily due to increases in unit sales volume.

We have a relatively limited product history for TECFIDERA. Therefore, it remains difficult to estimate trends of future product sales of TECFIDERA and the resulting impact on sales and market share of our other therapies, including other competing MS therapies.

**TYSABRI**

Revenues from TYSABRI are summarized as follows:

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,			
	2014	2013	Change %	2014	2013	Change %	
United States	\$ 275.2	\$ 232.2	18.5	% \$ 759.4	\$ 563.5	34.8	%
Rest of world	226.0	168.8	33.9	% 716.2	536.5	33.5	%
Total TYSABRI revenues	\$ 501.2	\$ 401.0	25.0	% \$ 1,475.6	\$ 1,100.0	34.1	%

For the three months ended September 30, 2014, compared to the same period in 2013, the increase in U.S. TYSABRI revenues was primarily due to price increases and a 9% increase in unit sales volume related to an extra shipping week in the quarter, partially offset by patients transitioning to oral therapies including TECFIDERA.

For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in U.S. TYSABRI revenues was primarily due to our recognition, starting in April 2013, of 100% of net revenues on TYSABRI in-market sales due to our acquisition of the remaining TYSABRI rights from Elan and price increases, partially offset by a 4% decrease in unit sales volume. Based on data reported by Elan for 2013 and our sales to third party customers, total U.S. TYSABRI in-market sales were \$707.5 million for the nine months ended September 30, 2013. The increase in U.S. TYSABRI in-market sales for the nine months ended September 30, 2014, compared to the prior year comparative period, was primarily due to price increases, partially offset by patients transitioning to oral therapies including TECFIDERA.

For the three months ended September 30, 2014, compared to the same period in 2013, the increase in rest of world TYSABRI revenues was primarily due to a favorable net price in Germany as the mandatory rebate percentage was reduced, finalizing the pricing agreement for TYSABRI in Italy as discussed below, volume increases primarily in Europe and the timing of a shipment in Brazil, a tender market. For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in rest of world TYSABRI revenues was primarily due to the recognition of \$53.5 million of revenue previously deferred in Italy relating to the pricing agreement with AIFA as discussed below, a favorable net price in Germany as the mandatory rebate percentage was reduced, volume increases primarily in Europe and a reduction to revenue of EUR15.4 million that was recorded in the prior year relating to sales in Italy, partially offset by pricing reductions in some countries. Rest of world TYSABRI revenue for the three and

nine months ended September 30, 2014, compared to the same periods in 2013, also reflects gains recognized in relation to the settlement of certain cash flow hedge instruments under our foreign currency hedging program as well as the positive impact of foreign currency exchange rates.

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For information relating to our agreement with AIFA relating to sales of TYSABRI in Italy, please read Note 2, Accounts Receivable to our condensed consolidated financial statements included in this report. As described in Note 2, in June 2014, AIFA approved a resolution, effective for a 24 month term, setting the price for TYSABRI in Italy. The resolution also eliminated the reimbursement limit from February 2013 onward.

We expect TYSABRI to continue facing increased competition in the MS marketplace in both the U.S. and rest of world. We and a number of other companies have commercialized or are working to develop additional treatments for MS, including oral and other alternative formulations that may compete with TYSABRI. In addition, the launch and growth of TECFIDERA and the commercialization of certain of our own products may negatively impact future sales of TYSABRI. In addition, safety warnings included in the TYSABRI label, such as the risk of progressive multifocal leukoencephalopathy (PML), 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. Our efforts to stratify patients into lower or higher risk for developing PML, including through the JCV antibody assay, and other on-going or future clinical trials involving TYSABRI may have a negative impact on prescribing behavior, which may result in decreased product revenues from sales of TYSABRI.

## Hemophilia

## ALPROLIX

Revenues from ALPROLIX are summarized as follows:

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
United States (1)	\$25.1	\$—	**	\$35.5	\$—	**
Rest of world	0.2	—	**	0.2	—	**
Total ALPROLIX revenues	\$25.3	\$—	**	\$35.7	\$—	**

(1) Commercial sales of ALPROLIX in the U.S. commenced in the second quarter of 2014.

## ELOCTATE

Revenues from ELOCTATE are summarized as follows:

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
United States (1)	\$21.6	\$—	**	\$21.6	\$—	**
Rest of world	—	—	**	—	—	**
Total ELOCTATE revenues	\$21.6	\$—	**	\$21.6	\$—	**

(1) Commercial sales of ELOCTATE in the U.S. commenced in the third quarter of 2014.

## Other Product Revenues

Other product revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
FAMPYRA	\$20.4	\$16.7	22.2 %	\$61.7	\$56.7	8.8 %
FUMADERM	16.5	16.1	2.5 %	48.1	46.2	4.1 %
Total other product revenues	\$36.9	\$32.8	12.5 %	\$109.8	\$102.9	6.7 %

We have a license from Acorda Therapeutics, Inc. (Acorda) to develop and commercialize FAMPYRA in all markets outside the U.S. For information about our relationship with Acorda, please read Note 20, Collaborative and Other Relationships to our consolidated financial statements included within our 2013 Form 10-K.

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For the three months ended September 30, 2014, compared to the same period in 2013, the increase in FAMPYRA revenue was primarily due to increased demand. For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in FAMPYRA revenue was primarily due to increased demand, partially offset by the recognition of deferred revenue in the prior year comparative period. FAMPYRA revenues for the nine months ended September 30, 2013 included the recognition of revenues previously deferred in Germany as a result of finalizing a contract that included the final negotiated fixed price, which was higher than the lowest point of the initial range cited by the German pricing authority.

**Unconsolidated Joint Business Revenues**

We collaborate with Genentech, Inc., a wholly-owned member of the Roche Group, on the development and commercialization of RITUXAN. In addition, in the U.S. we share operating profits and losses relating to GAZYVA with Genentech. The Roche Group and its sub-licensees maintain sole responsibility for the development, manufacturing and commercialization of GAZYVA in the U.S. For additional information related to this collaboration, including information regarding the pre-tax profit sharing formula and its impact on future unconsolidated joint business revenues, please read Note 20, Collaborative and Other Relationships to our consolidated financial statements included within our 2013 Form 10-K.

Revenues from unconsolidated joint business are summarized as follows:

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Biogen Idec's share of profits in the U.S. for RITUXAN and GAZYVA (1)	\$270.5	\$281.7	(4.0)%	\$828.5	\$832.8	(0.5)%
Reimbursement of selling and development expenses in the U.S. for RITUXAN	0.5	0.5	—%	2.6	1.8	44.4%
Revenue on sales in the rest of world for RITUXAN	19.7	21.0	(6.2)%	59.8	22.0	171.8%
Total unconsolidated joint business revenues	\$290.7	\$303.2	(4.1)%	\$890.9	\$856.6	4.0%

(1) GAZYVA was approved by the FDA in November 2013.

**Biogen Idec's Share of Pre-tax Profits in the U.S. for RITUXAN and GAZYVA**

The following table provides a summary of amounts comprising our share of pre-tax profits on RITUXAN and GAZYVA in the U.S.:

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Product revenues, net	\$917.3	\$947.5	(3.2)%	\$2,684.5	\$2,622.8	2.4%
Cost and expenses	244.3	155.1	57.5%	610.7	440.2	38.7%
Pre-tax profits in the U.S. for RITUXAN and GAZYVA	673.0	792.4	(15.1)%	2,073.8	2,182.6	(5.0)%
Biogen Idec's share of pre-tax profits in the U.S. for RITUXAN and GAZYVA	\$270.5	\$281.7	(4.0)%	\$828.5	\$832.8	(0.5)%

For the three months ended September 30, 2014, compared to the same period in 2013, the decrease in U.S. product revenues was primarily due to the recognition of \$94.9 million in net revenues in the three months ended September 30, 2013 resulting from the July 2013 issuance by the Department of Health and Human Services of its final rule on the Exclusion of Orphan Drugs for Certain Covered Entities Under 340B Program, partially offset by price increases. For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in U.S. product revenues was primarily due to price increases.



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Collaboration costs and expenses for the three and nine months ended September 30, 2014, compared to the same periods in 2013, increased primarily due to the recognition of \$52.5 million of additional BPD fee expense as well as GAZYVA sales and marketing and research and development expenses. For additional information related to the BPD fee, please read "The Patient Protection and Affordable Care Act" section of this report. Upon the first marketing approval of GAZYVA by the FDA, we began recognizing all activity, including sales and marketing and research and development expenses related to the GAZYVA program in unconsolidated joint business within our condensed consolidated statements of income. Prior to its first regulatory approval, we recognized our share of GAZYVA development and commercialization expenses as research and development expense and selling, general and administrative expense, respectively, within our condensed consolidated statements of income.

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

Revenue on sales in the rest of world for RITUXAN consists of our share of pre-tax co-promotion profits on RITUXAN in Canada and royalty revenue on sales outside the U.S. and Canada. For the three months ended September 30, 2014, compared to the same period in 2013, revenue on sales in the rest of world for RITUXAN decreased due to the expiration of royalties in the prior year. For the nine months ended September 30, 2014 compared to the same period in 2013, revenue on sales in the rest of world for RITUXAN increased primarily due to the prior year recognition of a \$37.6 million charge for damages and interest awarded to Hoechst. During the first quarter of 2013, we reduced our share of RITUXAN revenues from unconsolidated joint business to reflect our share of the royalties and interest awarded to Hoechst in its arbitration with Genentech as described in Note 21, Litigation to our consolidated financial statements included within our 2013 Form 10-K.

The royalty period for sales in the rest of world is 11 years from the first commercial sale of such product on a country-by-country basis. The royalty periods for the substantial portion of the royalty-bearing sales in the rest of world markets expired during 2012 and 2013. We expect future revenue on sales of RITUXAN in the rest of world will be limited to our share of pre-tax co-promotion profits in Canada.

**Other Revenues**

Other revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Royalty revenues	\$67.1	\$54.2	23.8 %	\$145.3	\$125.1	16.1 %
Corporate partner revenues	36.3	16.8	116.1 %	110.0	49.4	122.7 %
Total other revenues	\$103.4	\$71.0	45.6 %	\$255.3	\$174.5	46.3 %

**Royalty Revenues**

We receive royalties from net sales on products related to patents that we licensed. Our most significant source of royalty revenue is derived from net worldwide sales of ANGIOMAX, which is licensed to The Medicines Company (TMC). Royalty revenues from the net worldwide 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. For the three and nine months ended September 30, 2014, compared to the same periods in 2013, royalty revenues increased due to an increase in the net worldwide sales of ANGIOMAX as well as an increase in net sales of certain other licensed products.

We expect U.S. royalty revenues from ANGIOMAX to cease when the term of the U.S. patent covering ANGIOMAX expires on December 15, 2014. As a result, we estimate that in 2015 we will have a decrease of approximately \$140.0 million in royalty revenues. For additional information on our U.S. patent that covers ANGIOMAX, please read the subsection entitled "Other Revenues – Royalty Revenues" of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included within our 2013 Form 10-K.

We also expect declines in royalty revenues from our out-licensed patents over the next several years due to changes in the competitive landscape related to one of the underlying technologies we licensed. These changes resulted in an asset impairment charge of \$34.7 million recorded in the first quarter of 2014 which has been reflected in amortization of acquired intangible assets within our condensed consolidated statement of income.



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## Corporate Partner Revenues

Our corporate partner revenues include amounts earned upon delivery of product under contract manufacturing agreements, revenues related to our arrangement with Samsung Bioepis, and supply agreement revenues covering products previously included within our product line that we have sold or exclusively licensed to third parties. For the three months ended September 30, 2014, compared to the same period in 2013, the increase in corporate partner revenues was primarily due to increased revenue from our biosimilar arrangements. For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in corporate partner revenue was primarily due to higher contract manufacturing revenue and increased revenue from our biosimilar arrangements, partially offset by lower revenue associated with our ZEVALIN supply agreement. An amendment to our ZEVALIN supply agreement in 2013 resulted in the delivery of our remaining ZEVALIN inventory and the recognition of a previously deferred amount during the nine months ended September 30, 2013. ZEVALIN is a program we sold in 2007 but have continued to manufacture. As part of the amendment, we committed to one additional ZEVALIN manufacturing campaign, which was completed in the third quarter of 2014.

For additional information on our relationship with Samsung Bioepis, please read Note 17, Collaborative and Other Relationships to our condensed consolidated financial statements included within this report.

## Reserves 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 rebates or applicable allowances including those associated with the implementation of pricing actions in certain international markets where we operate.

Reserves established for these discounts and allowances are classified as reductions of accounts receivable (if the amount is payable to our direct customer) or a liability (if the amount is payable to a party other than our customer). These reserves are based on estimates of the amounts earned or to be 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 and payment patterns. Actual amounts may ultimately differ from our estimates. If actual results vary, we adjust these estimates, which will have an effect on earnings in the period of adjustment. To date, such adjustments have not been significant.

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 September 30,			For the Nine Months Ended September 30,			
	2014	2013	Change %	2014	2013	Change %	
Discounts	\$86.8	\$68.1	27.5	% \$247.6	\$160.6	54.2	%
Contractual adjustments	305.8	234.2	30.6	% 890.7	583.5	52.6	%
Returns	22.6	5.9	283.1	% 42.7	16.9	152.7	%
Total allowances	\$415.2	\$308.2	34.7	% \$1,181.0	\$761.0	55.2	%
Gross product revenues	\$2,532.6	\$1,761.8	43.8	% \$7,097.4	\$4,696.3	51.1	%
Percent of gross product revenues	16.4	% 17.5	%	16.6	% 16.2	%	

During 2014, we reclassified prior year amounts related to our AVONEX co-pay programs from discounts to contractual adjustments. For the three and nine months ended September 30, 2013, we reclassified \$18.9 million and \$41.5 million, respectively.

As a result of our acquisition of TYSABRI rights from Elan, we began recognizing reserves for discounts and allowances for U.S. TYSABRI revenue in the second quarter of 2013. Prior periods included reserves for discounts and allowances for rest of world TYSABRI revenue and worldwide AVONEX revenue. In addition, following our commercial launches of recent products, we began recognizing reserves for discounts and allowances related to these products' revenue. Gross product revenues for the nine months ended September 30, 2013 include sales of TYSABRI to Elan in the first quarter of 2013 under our collaboration agreement, which did not have any corresponding reserves for discounts and allowances.

Discounts include trade term discounts and wholesaler incentives. For the three and nine months ended September 30, 2014, compared to the same periods in 2013, the increase in discounts was primarily driven by the above noted product additions.

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Contractual adjustments relate to Medicaid and managed care rebates, VA, PHS discounts and other government rebates or applicable allowances. In addition to the above noted product additions, for the three and nine months ended September 30, 2014, compared to the same periods in 2013, the increase in contractual adjustments was primarily due to an increase in managed care rebates and U.S. governmental rebates and allowances as a result of price increases.

Product return reserves are established for returns made by wholesalers. In accordance with contractual terms, U.S. wholesalers are permitted to return product for reasons such as damaged or expired product. The majority of wholesaler returns are due to product expiration. Reserves for product returns are recorded in the period the related revenue is recognized, resulting in a reduction to product sales. For the three and nine months ended September 30, 2014 compared to the same periods in 2013, return reserves increased primarily due to our acquisition of TYSABRI rights, the start of commercial sales of TECFIDERA and increased return rates for prior year AVONEX shipments. For additional information related to our reserves, please read Note 5, Reserves for Discounts and Allowances to our consolidated financial statements included within our 2013 Form 10-K.

## Cost and Expenses

A summary of total cost and expenses is as follows:

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,			Change %
	2014	2013	Change %	2014	2013	Change %	
Cost of sales, excluding amortization of acquired intangible assets	\$302.6	\$234.7	28.9 %	\$873.8	\$599.2	45.8 %	
Research and development	417.2	410.0	1.7 %	1,393.3	1,021.8	36.4 %	
Selling, general and administrative	570.4	405.6	40.6 %	1,658.7	1,189.2	39.5 %	
Amortization of acquired intangible assets	122.4	100.0	22.4 %	382.5	233.5	63.8 %	
Collaboration profit sharing	—	—	**	—	85.4	(100.0) %	
(Gain) loss on fair value remeasurement of contingent consideration	(49.4)	(0.1)	**	(46.2)	(3.0)	**	
Total cost and expenses	\$1,363.2	\$1,150.2	18.5 %	\$4,262.1	\$3,126.1	36.3 %	

## Cost of Sales, Excluding Amortization of Acquired Intangible Assets

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,			Change %
	2014	2013	Change %	2014	2013	Change %	
Product cost of sales	\$149.7	\$116.5	28.5 %	\$431.4	\$297.4	45.1 %	
Royalty cost of sales	152.9	118.2	29.4 %	442.4	301.8	46.6 %	
Total cost of sales	\$302.6	\$234.7	28.9 %	\$873.8	\$599.2	45.8 %	

For the three and nine months ended September 30, 2014, compared to the same periods in 2013, the increase in product cost of sales was driven by higher unit sales volume, including recent product launches and our contract manufacturing and biosimilars manufacturing arrangements.

For the three months ended September 30, 2014, compared to the same period in 2013, the increase in royalty cost of sales was driven by an increase in the contractual rate on TYSABRI contingent payments due to Elan. For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in royalty cost of sales was primarily driven by our acquisition of TYSABRI rights, partially offset by the expiration of a third party royalty related to AVONEX. Commencing in the second quarter of 2013, we began recording 100% of cost of sales and third party royalties of TYSABRI, which previously were shared with Elan. Our contingent payments due to Elan are also recorded as a component of royalty cost of sales. For additional information on the contingent payments due to Elan, please read Note 2, Acquisitions to our consolidated financial statements included within our 2013 Form 10-K.

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Inventory amounts written down related to excess, obsolete, unmarketable, or other inventory totaled \$12.3 million and \$33.2 million, respectively, for the three and nine months ended September 30, 2014, as compared to \$17.5 million and \$28.3 million, respectively, in the prior year comparative periods.

Research and Development

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,			
	2014	2013	Change %	2014	2013	Change %	
Marketed products	\$98.3	\$65.3	50.5 %	\$270.3	\$169.3	59.7 %	
Late stage programs	13.5	73.0	(81.5) %	89.9	216.6	(58.5) %	
Early stage programs	66.7	33.0	102.1 %	181.1	83.5	116.9 %	
Research and discovery	44.2	22.0	100.9 %	109.2	72.3	51.0 %	
Other research and development costs	187.5	136.6	37.3 %	558.4	394.0	41.7 %	
Milestone and upfront expenses	7.0	80.1	(91.3) %	184.4	86.1	114.2 %	
Total research and development	\$417.2	\$410.0	1.8 %	\$1,393.3	\$1,021.8	36.4 %	

Research and development expense incurred in support of our marketed products includes costs associated with product lifecycle management activities including, if applicable, costs associated with the development of new indications for existing products. Late stage programs are programs in Phase 3 development or in registration stage. Early stage programs are programs in Phase 1 or Phase 2 development. Research and discovery represents costs incurred to support our discovery research and translational science efforts. Other research and development costs consist of indirect costs incurred in support of overall research and development activities and non-specific programs, including activities that benefit multiple programs, such as management costs as well as depreciation and other facility-based expenses. For several of our programs, the research and development activities are part of our collaborative and other relationships. Our costs reflect our share of the total costs incurred.

For the three and nine months ended September 30, 2014, compared to the same periods in 2013, the increase in research and development expense was primarily related to increase in costs incurred in connection with our early stage programs, marketed products and upfront and milestone expenses, partially offset by a decrease in costs incurred in connection with our late stage programs. Research and development expense related to our early stage programs increased over the prior year comparative periods primarily due to costs incurred in the advancement of our Anti-LINGO program in multiple sclerosis, the development of ISIS-SMNRx for the treatment of spinal muscular atrophy, our BIIB037 program for Alzheimer's disease, BAN2401, an anti-amyloid beta antibody related to our collaboration agreement with Eisai and an increase in spending incurred in connection with our development of STX-100 for the treatment of idiopathic pulmonary fibrosis. The increase in spending associated with marketed products is related to ALPROLIX, ELOCTATE and PLEGRIDY, which were recently approved, and costs associated with TYSABRI, which previously were shared with Elan and now are recorded 100% by us upon our acquisition of the remaining TYSABRI rights from Elan in April 2013.

The increase in spending associated with milestones and upfront expenses was driven by upfront amounts to Eisai and Sangamo, an option amount exercised by Eisai and milestone amounts to Isis. Research and development expense for the nine months ended September 30, 2014 includes charges of \$117.7 million recorded upon entering into the collaboration agreement with Eisai, \$21.6 million as Eisai exercised its option in the collaboration agreement to expand the joint development and commercialization activities to include Japan, \$20.0 million related to an upfront payment made to Sangamo upon entering into an exclusive worldwide collaboration and license agreement and \$15.0 million recorded as milestones in relation to our collaboration agreements with Isis. For additional information about these transactions, please read Note 17, Collaborative and Other Relationships to our condensed consolidated financial statements included within this report. In the prior year comparative periods, research and development expense included a \$75.0 million upfront payment made to Isis in September 2013 upon entering into a six year research collaboration under which both companies will perform research and then seek to develop and commercialize antisense or other therapeutics for the treatment of neurological disorders.

The decrease in spending associated with our late stage product candidates was driven by approval of PLEGRIDY in the third quarter of 2014, ELOCTATE in the second quarter of 2014, ALPROLIX in the first quarter of 2014 and GAZYVA in the fourth quarter of 2013.



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We intend to continue committing significant resources to 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 continue to invest in bringing forward our MS pipeline and in pursuing additional therapies for autoimmune disorders, neurodegenerative diseases and hematologic conditions.

## Selling, General and Administrative

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Selling, general and administrative	\$570.4	\$405.6	40.6 %	\$1,658.7	\$1,189.2	39.5 %

For the three and nine months ended September 30, 2014, compared to the same periods in 2013, the increases in selling, general and administrative expenses were primarily driven by costs associated with developing commercial capabilities for our recent product launches along with an increase in sales and marketing activities in support of our MS products. The successful commercialization of new and potential new products requires significant investments, such as sales force build and development, training, marketing, and other related activities. The increases in selling, general, and administrative expense were also driven by an increase in corporate giving and the recognition of \$18.5 million of additional BPD fee expense. For additional information related to the BPD fee, please read "The Patient Protection and Affordable Care Act" section of this report.

We remain focused on our recent product launches. As discussed above, we continue to invest in commercial capabilities in support of our TECFIDERA program, and we have continued to make investments in the development of commercial capabilities for our hemophilia products.

## Amortization of Acquired Intangible Assets

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Amortization of acquired intangible assets	\$122.4	\$100.0	22.4 %	\$382.5	\$233.5	63.8 %

For the three months ended September 30, 2014, compared to the same period in 2013, the change in amortization of acquired intangible assets was primarily driven by a \$16.2 million impairment loss related to one of our IPR&D intangible assets as discussed further below. For the nine months ended September 30, 2014, compared to the same period in 2013, the change in amortization of acquired intangible assets was primarily driven by our acquisition of the TYSABRI rights from Elan, total impairment charges of \$50.9 million related to one of our out-licensed patents and one of our IPR&D intangible assets and lower expected lifetime revenues of AVONEX as discussed further below. For additional information related to the amortization of acquired intangible assets, please read Note 5, Intangible Assets and Goodwill to our condensed consolidated financial statements included within this report.

Our amortization expense is based on the economic consumption of the intangible assets. Our most significant intangible assets are related to our AVONEX and TYSABRI products. Annually, during our long-range planning cycle, we perform an analysis of anticipated lifetime revenues of AVONEX and TYSABRI. This analysis is updated whenever events or changes in circumstances would significantly affect the anticipated lifetime revenues of either product.

Our most recent long range planning cycle was updated in the third quarter of 2014. Our analysis included an increase in the expected future product revenues of TYSABRI, resulting in a decrease in amortization expense as compared to prior quarters. Our analysis also included a decrease in the expected future product revenues of AVONEX, resulting in an increase in amortization expense as compared to prior quarters. The results of our TYSABRI and AVONEX analyses were impacted by changes in the estimated impact of TECFIDERA, as well as other existing and potential oral and alternative MS formulations, including PLEGRIDY, that may compete with TYSABRI and AVONEX. We monitor events and expectations regarding 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 revenues of the relevant process. The occurrence of an adverse event 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.

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## In-process Research and Development (IPR&amp;D)

The field of developing idiopathic pulmonary fibrosis (IPF) treatments is highly competitive and characterized by rapid technological advances as two of our competitors filed marketing applications during the second quarter of 2014, seeking approval for potentially competitive treatment regimens. There can be no assurance that we will be able to successfully develop STX-100 for the treatment of IPF (STX-100 in IPF). During the second quarter of 2014, we determined that there were indicators that the value of the STX-100 in IPF intangible asset may have become impaired. No impairment was determined.

During the three months ended September 30, 2014, we updated the probabilities of success related to the early stage programs acquired through our recent acquisitions. This change in probability of success, combined with a delay in one of the projects, resulted in an impairment loss of \$16.2 million. For additional information, please read Note 5, Intangible Assets and Goodwill to our condensed consolidated financial statements included within this report.

Overall, the value of our acquired IPR&D assets is dependent upon a number of variables, including estimates of future revenues and the effects of competition, the level of anticipated development costs and the probability and timing of successfully advancing a particular research program from a clinical trial phase to the next. We are continually reevaluating our estimates concerning these variables and evaluating industry data regarding the productivity of clinical research and the development process. Changes in our estimates of items may result in a significant change to our valuation of these assets.

## Collaboration Profit Sharing

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Collaboration profit sharing	\$—	\$—	**	\$—	\$85.4	(100.0 )%

Upon our acquisition of TYSABRI rights, our collaboration agreement was terminated, and we no longer record collaboration profit sharing.

## (Gain) Loss on Fair Value Remeasurement of Contingent Consideration

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
(Gain) loss on fair value remeasurement of contingent consideration	\$(49.4 )	\$(0.1 )	**	\$(46.2 )	\$(3.0 )	**

The consideration for certain of our business combinations includes future payments that are contingent upon the occurrence of a particular factor or factors. For business combinations completed after January 1, 2009, we record an obligation for such contingent consideration payments at its fair value on the acquisition date. We revalue our contingent consideration obligations each reporting period. Changes in the fair value of our contingent consideration obligations, other than changes due to payments, are recognized as a (gain) loss on fair value remeasurement of contingent consideration within our condensed consolidated statements of income. The increase in the gain for the three and nine months ended September 30, 2014, compared to the same periods in 2013, was primarily due to an adjustment to the value of our contingent consideration liabilities as we updated the probabilities of success related to the early stage programs acquired through our recent acquisitions. For additional information, please read Note 5, Intangible Assets and Goodwill to our condensed consolidated financial statements included within this report.

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## Gain on Sale of Rights

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Gain on sale of rights	\$4.4	\$6.9	(37.0)%	\$12.1	\$17.3	(29.9)%

During the third quarter of 2012, we sold all of our rights, including rights to royalties, related to BENLYSTA (belimumab). We were entitled to these rights pursuant to a license agreement with Human Genome Sciences, Inc. and GlaxoSmithKline plc (collectively the Licensees). Under the terms of the BENLYSTA sale agreement, we will receive payments equal to a multiple of royalties payable by the Licensees for the period covering October 2011 to September 2014 and a one-time contingency payment that could be paid to us if the cumulative royalties over the full royalty term exceed an agreed amount.

For the three and nine months ended September 30, 2014, compared to the same periods in 2013, we recognized lower payments from the sale of our rights to BENLYSTA resulting from a lower multiple of sales being applied in 2014 as compared to 2013. The remaining payments, which are contingent upon BENLYSTA sales over the period ending September 2014, will be recognized as the payments become due. For additional information related to this transaction, please read Note 3, Gain on Sale of Rights to our consolidated financial statements included within our 2013 Form 10-K.

## Other Income (Expense), Net

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Other income (expense), net	\$(16.3)	\$(4.6)	251.1%	\$(17.0)	\$(29.5)	(42.3)%

For the three months ended September 30, 2014 compared to the same period in 2013, the change in other income (expense), net was due to higher realized losses on investments, higher non-income state taxes and higher foreign exchange losses. For the nine months ended September 30, 2014 compared to the same period in 2013, the change in other income (expense), net was due to decreased interest expense as we repaid our 6% Senior Notes in March 2013, lower non-income based state taxes, discussed below, an increase in interest income and lower foreign exchange losses.

## Income Tax Provision

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Effective tax rate on pre-tax income	24.2%	27.4%	(11.7)%	25.8%	22.5%	14.7%
Income tax expense	\$274.8	\$186.1	47.6%	\$721.7	\$410.8	75.7%

Our effective tax rate fluctuates from year to year due to the global nature of our operations. The factors that most significantly impact our effective tax rate include variability in the allocation of our taxable earnings among multiple jurisdictions, changes in tax laws, the amount and characterization of our research and development expenses, the levels of certain deductions and credits, acquisitions, and licensing transactions.

For the three months ended September 30, 2014, compared to the same period in 2013, the decrease in our income tax rate was due to a higher percentage of our income being earned outside the U.S. and an adjustment to our deferred tax liabilities to reflect a change in the effective tax rate of one of our subsidiaries, offset by a net adjustment to reflect the settlement of certain uncertain tax positions and the accrual of an uncertain tax position related to our transfer pricing items.

For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in our income tax rate was primarily the result of a 2013 change in our uncertain tax position related to our U.S. federal manufacturing deduction and our unconsolidated joint business described below, lower current year expenses eligible for the orphan drug credit, partially offset by a higher percentage of our 2014 income being earned outside the U.S.



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## Accounting for Uncertainty in Income Taxes

During 2013, we received updated technical guidance from the IRS concerning the calculation of our U.S. federal manufacturing deduction and overall tax classification of our unconsolidated joint business for the current and prior year filings. Based on this guidance we reevaluated the level of our unrecognized benefits related to uncertain tax positions and recorded a \$49.8 million income tax benefit. This benefit was for a previously unrecognized position and related to years 2005 through 2012. We recorded an offsetting expense of \$10.3 million for non-income based state taxes, which was recorded in other income (expense) within our condensed consolidated statements of income. For more information on our uncertain tax positions and income tax rate reconciliation for the three and nine months ended September 30, 2014 and 2013, please read Note 14, Income Taxes to our condensed consolidated financial statements included within this report.

## Equity in Loss of Investee, Net of Tax

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Equity in loss of investee, net of tax	\$5.4	\$6.2	(12.6)%	\$14.9	\$12.3	21.7%

In February 2012, we entered into a joint venture agreement with Samsung BioLogics Co. Ltd., establishing an entity, Samsung Bioepis, to develop, manufacture and market biosimilar pharmaceuticals. We account for this investment under the equity method of accounting. We recognize our share of the results of operations related to our investment in Samsung Bioepis one quarter in arrears.

For the three months ended September 30, 2014, compared to the same period in 2013, the decrease in equity in loss of investee, net of tax was due to a decrease in our ownership interest, partially offset by the joint venture's clinical trial activity. For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in equity in loss of investee, net of tax was due to the joint venture's increased clinical trial activity, partially offset by our recognition of a gain as Samsung Bioepis secured additional equity financing from Samsung Biologics in which we did not participate. For additional information related to this transaction, please read Note 17, Collaborative and Other Relationships to our condensed consolidated financial statements included within this report.

## Noncontrolling Interest

(In millions, except percentages)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2014	2013	Change %	2014	2013	Change %
Net income (loss) attributable to noncontrolling interests, net of tax	\$(0.7)	\$—	**	\$7.7	\$—	**

For the nine months ended September 30, 2014, compared to the same period in 2013, the change in net income (loss) attributable to noncontrolling interests, net of tax, was related to a \$10.0 million milestone payment made to Neurimmune and the consolidation of Ataxion. For additional information about these transactions, please read Note 16, Investments in Variable Interest Entities to our condensed consolidated financial statements included within this report.

## Market Risk

We conduct business globally. As a result, our international operations are subject to certain 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, and pricing pressures worldwide.

## 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 currency. 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.



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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 revenues. 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 in the next 15 months. For a more detailed disclosure of our hedges outstanding, please read Note 8, Derivative Instruments to our condensed consolidated financial statements included within this report. Our ability to mitigate the impact of exchange rate changes on revenues and net income diminishes as significant exchange rate fluctuations are sustained over extended periods of time. In particular, devaluation or significant deterioration of foreign currency exchange rates are difficult to mitigate and likely to negatively impact earnings. Other foreign currency gains or losses arising from our operations are recognized in the period in which we incur those gains or losses.

**Pricing Pressure**

Governments in some international markets in which we operate have implemented measures aimed at reducing healthcare costs to constrain the overall level of government expenditures. These implemented measures vary by country and include, among other things, mandatory rebates and discounts, prospective and possible retroactive price reductions and suspensions on pricing increases on pharmaceuticals.

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 impair our ability to obtain acceptable prices in existing and potential new markets and limit market growth. The continued implementation of pricing actions throughout Europe may also lead to higher levels of parallel trade.

In the U.S., federal and state legislatures, health agencies and third-party payors continue to focus on containing the cost of health care. Legislative and regulatory proposals and enactments to reform health care insurance programs could significantly influence the manner in which our products are prescribed and purchased. It is possible that additional federal health care reform measures will be adopted in the future, which could result in increased pricing pressure and reduced reimbursement for our products and otherwise have an adverse impact on our financial position or results of operations.

There is also significant economic pressure on state budgets that may result in states increasingly seeking to achieve budget savings through mechanisms that limit coverage or payment for our drugs.

**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 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, public hospitals and other government entities. 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 weakness in economic conditions has resulted in extended collection periods. We continue to monitor these conditions, including the volatility associated with international economies and the relevant financial markets, and assess their possible impact on our business. Our historical write-offs of accounts receivable have not been significant.

Within the European Union, our accounts receivable in Spain, Italy and Portugal continue to be subject to significant payment delays due to government funding and reimbursement practices. Uncertain credit and economic conditions have generally led to greater collection risk, although these countries have introduced various programs periodically to pay down significantly overdue payables. Please refer to Note 2, Accounts Receivable to our condensed consolidated financial statements included within this report for further details on recent payments and classification.

We believe that our allowance for doubtful accounts was adequate as of September 30, 2014 and December 31, 2013, respectively. 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.

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## Financial Condition and Liquidity

Our financial condition is summarized as follows:

(In millions, except percentages)	As of September 30, 2014	As of December 31, 2013	Change	%
Financial assets:				
Cash and cash equivalents	\$1,186.3	\$602.6	96.9	%
Marketable securities — current	675.1	620.2	8.9	%
Marketable securities — non-current	1,371.4	625.8	119.2	%
Total cash, cash equivalents and marketable securities	\$3,232.8	\$1,848.5	74.9	%
Borrowings:				
Current portion of notes payable	\$3.2	\$3.5	(7.8	)%
Notes payable	584.0	592.4	(1.4	)%
Total borrowings	\$587.2	\$595.9	(1.5	)%
Working capital:				
Current assets	\$4,372.1	\$3,184.9	37.3	%
Current liabilities	(1,940.6	) (1,758.3	) 10.4	%
Total working capital	\$2,431.5	\$1,426.6	70.4	%

For the nine months ended September 30, 2014, certain significant cash flows were as follows:

\$813.5 million in total payments for income taxes;

\$795.7 million in net purchases of marketable securities;

\$360.0 million used for share repurchases;

\$180.9 million used for purchases of property, plant and equipment;

\$175.0 million in contingent payments made to former shareholders of Fumapharm AG and holders of their rights; and

\$155.0 million used for upfront and milestone payments in collaborative arrangements.

For the nine months ended September 30, 2013, certain significant cash flows were as follows:

\$2.6 billion in net proceeds received on sales and maturities of marketable securities;

\$3.25 billion used for our acquisition of TYSABRI rights from Elan;

\$450.0 million used for the repayment of principal of our 6.0% Senior Notes;

\$414.5 million in total payments for income taxes;

\$400.3 million used for share repurchases;

\$167.6 million used for purchases of property, plant and equipment; and

\$100.0 million upfront payment made to Isis pursuant to our collaboration agreement dated September 2013.

We have historically financed our operating and capital expenditures primarily through 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 our 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, 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.

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The undistributed cumulative foreign earnings of certain of our foreign subsidiaries, exclusive of earnings that would result in little or no net income tax expense under current U.S. tax law or which has already been subject to tax under U.S. tax law, are invested indefinitely outside the U.S.

Of the total cash, cash equivalents and marketable securities at September 30, 2014, approximately \$1,265.0 million was generated in foreign jurisdictions and is primarily intended for use in our foreign operations or in connection with business development transactions outside of the U.S. 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.

### Share Repurchase Programs

In February 2011, our Board of Directors authorized the repurchase of up to 20.0 million shares of common stock. This authorization does not have an expiration date. We repurchased approximately 1.2 million shares of common stock at a cost of \$360.0 million during the nine months ended September 30, 2014 for the purpose of share stabilization. During the nine months ended September 30, 2013, we repurchased approximately 2.0 million shares at a cost of \$400.3 million.

Approximately 2.9 million shares of our common stock remain available for repurchase under the 2011 authorization.

### Cash, Cash Equivalents and Marketable Securities

Until required for another use in our business, we typically 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. It is our policy to mitigate credit risk in our cash reserves and marketable securities by maintaining a well-diversified portfolio that limits the amount of exposure as to institution, maturity, and investment type. We also limit our exposure to European sovereign debt securities and maintain no holdings with respect to certain euro-zone states, such as Portugal, Italy and Spain. 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.

The increase in cash, cash equivalents and marketable securities from December 31, 2013, is primarily due to net cash flows provided by operating activities, partially offset by the repurchase of our common stock.

### Borrowings

In March 2014, our \$750.0 million senior unsecured revolving credit facility expired and was not renewed.

We have \$550.0 million aggregate principal amount of 6.875% Senior Notes due March 1, 2018 that were originally priced at 99.184% of par. The discount is amortized as additional interest expense over the period from issuance through maturity.

In connection with our 2006 distribution agreement with Fumedica, we issued notes totaling 61.4 million Swiss Francs which were payable to Fumedica in varying amounts from June 2008 through June 2018. Our remaining note payable to Fumedica had a present value of 12.8 million Swiss Francs (\$13.0 million) and 14.0 million Swiss Francs (\$15.8 million) as of September 30, 2014 and December 31, 2013, respectively.

For a summary of the fair and carrying values of our outstanding borrowings as of September 30, 2014 and December 31, 2013, please read Note 6, 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, 2013 reflects an increase in total current assets of \$1,187.2 million, partially offset by an increase in current liabilities of \$182.4 million. The increase in total current assets was primarily driven by an increase in cash and cash equivalents

and accounts receivable resulting from increased product revenue. The increase in total current liabilities primarily resulted from an increase in accrued expenses and other.

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## Cash Flows

The following table summarizes our cash flow activity:

(In millions, except percentages)	For the Nine Months Ended September 30,			% Change	%
	2014	2013			
Net cash flows provided by operating activities	\$2,009.3	\$1,476.1		36.1	%
Net cash flows used in investing activities	\$(1,164.7	) \$(894.7	)	30.2	%
Net cash flows used in financing activities	\$(242.6	) \$(727.7	)	(66.7	)%

## 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. 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
- Changes associated with the fair value of contingent milestones associated with our acquisitions of businesses and payments related to collaborations.

For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in cash provided by operating activities is primarily driven by higher net income.

## Investing Activities

For the nine months ended September 30, 2014, compared to the same period in 2013, the increase in net cash flows used in investing activities is primarily due to an increase in the net purchases of marketable securities and the payment of contingent consideration to former shareholders of Fumapharm AG. During the nine months ended September 30, 2013, we sold marketable securities to finance the acquisition of TYSABRI rights from Elan.

## Financing Activities

For the nine months ended September 30, 2014, compared to the same period in 2013, the decrease in net cash flows used in financing activities is primarily due to the prior year repayment of the aggregate principal amount of our 6.0% Senior Notes as well as a decrease in the amount of common stock we repurchased.

## 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 defined benefit and other purchase obligations, excluding amounts related to uncertain tax positions, amounts payable to tax authorities, funding commitments, contingent development, regulatory and commercial milestone payments, TYSABRI contingent payments, contingent consideration related to business combinations and other off-balance sheet arrangements as described below.

In April 2014, we renewed the lease related to one of our office facilities located in Cambridge, Massachusetts to extend the term of the lease to 2028. We are committed to make payments related to this lease of approximately \$150.0 million for the extended term of the lease.

In July 2014, we executed a sublease for office space located in Cambridge, Massachusetts. We are committed to make payments related to this sublease of approximately \$16.0 million over the term of the sublease, which extends until 2018.

There have been no material changes in our contractual obligations since December 31, 2013.

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**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 September 30, 2014, we have approximately \$133.9 million of liabilities associated with uncertain tax positions.

**Other Funding Commitments**

As of September 30, 2014, we have several on-going 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 approximately \$35.9 million on our condensed consolidated balance sheet for expenditures incurred by CROs as of September 30, 2014. We have approximately \$518.2 million in cancellable future commitments based on existing CRO contracts as of September 30, 2014.

As of September 30, 2014, we have planned clinical trials for our ISIS-SMNRx and ISIS-DMPKRx programs which are managed by Isis. We have agreed to pay up to approximately \$120.0 million in payments to Isis as the trials for these programs proceed. If these trials advance and we continue with our Isis programs, it is possible that we could make a significant amount of additional development payments in the future.

**Contingent Development, Regulatory and Commercial Milestone Payments**

Based on our development plans as of September 30, 2014, we have committed to make potential future milestone payments to third parties of up to approximately \$2.9 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 September 30, 2014, such contingencies have not been recorded in our financial statements. 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. We anticipate that we may pay approximately \$31.6 million of milestone payments during the remainder of 2014, provided various development, regulatory or commercial milestones are achieved.

**TYSABRI Contingent Payments**

On April 2, 2013, we acquired full ownership of, and strategic, commercial and decision-making rights to, TYSABRI from Elan. Under the terms of the acquisition agreement, we continued to share TYSABRI profits with Elan on an equal basis until April 30, 2013. We recorded the profit split for the month ended April 30, 2013, as cost of sales within our condensed consolidated statements of income as we controlled TYSABRI effective April 2, 2013. Between May 1, 2013 and April 30, 2014, we made contingent payments to Elan of 12% on worldwide net sales of TYSABRI. Commencing May 1, 2014 and thereafter, we will make contingent payments to Elan of 18% on annual worldwide net sales up to \$2.0 billion and 25% on annual worldwide net sales that exceed \$2.0 billion. In 2014, the \$2.0 billion threshold will be pro-rated for the portion of 2014 remaining after the first 12 months expires. Royalty payments to Elan and other third parties are recognized as cost of sales within our condensed consolidated statements of income.

**Contingent Consideration related to Business Combinations**

In connection with our purchase of the noncontrolling interests in our joint venture investments in Biogen Dompé SRL and Biogen Dompé Switzerland GmbH and our acquisitions of Stromedix, Biogen Idec International Neuroscience GmbH (BIN) and Biogen Idec Hemophilia Inc., we agreed to make additional payments of up to approximately \$1.0 billion based upon the achievement of certain milestone events. These milestones may not be achieved.

As the acquisitions of the noncontrolling interests in our joint venture investments and our acquisitions of Stromedix and BIN, formerly Panima Pharmaceuticals AG, occurred after January 1, 2009, we record contingent consideration liabilities at their fair value on the acquisition date and revalue these obligations each reporting period. Payments made in relation to Biogen Idec Hemophilia Inc. will be capitalized as an intangible asset when the related milestones are achieved. We paid \$20.0 million during the second quarter of 2014 as ALPROLIX was approved for the treatment of hemophilia B. For additional information related to these transactions please read Note 2, Acquisitions, to our consolidated financial statements included within our 2013 Form 10-K.



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In 2006, we acquired Fumapharm AG. As part of this acquisition we acquired FUMADERM and TECFIDERA (together, Fumapharm Products). We are required to make additional contingent payments to former shareholders of Fumapharm AG based on the attainment of certain cumulative sales levels of Fumapharm Products, with the amount of each payment based on the level of total net sales of Fumapharm Products in the prior twelve month period, as defined in the acquisition agreement:

	Cumulative Sales Level			Each additional \$1.0B up to \$20.0B
	\$1.0B	\$2.0B	\$3.0B	
Prior 12 Month Sales	Payment Amount (In Millions)			
< \$500 million	\$—	\$—	\$—	\$—
\$500 million - \$1.0 billion	25.0	50.0	50.0	50.0
\$1.0 billion - \$1.5 billion	50.0	100.0	100.0	100.0
\$1.5 billion - \$2.0 billion	—	150.0	150.0	150.0
\$2.0 billion - \$2.5 billion	—	200.0	200.0	200.0
\$2.5 billion - \$3.0 billion	—	—	250.0	250.0
> \$3.0 billion	—	—	—	300.0

For example, if we reach the \$4.0 billion cumulative sales level related to the Fumapharm Products and our prior twelve month sales of the related products were between \$2.5 billion and \$3.0 billion, then we will owe a \$250.0 million contingent payment, and no further contingent payments will be required to be paid until such time as cumulative sales reach the next applicable cumulative sales level, or \$5.0 billion in this example.

These payments 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. Any portion of the payment which is tax deductible will be recorded as a reduction to goodwill. Payments are due within 60 days following the end of the quarter in which the applicable cumulative sales level has been reached. During the nine months ended September 30, 2014, we paid a \$25.0 million contingent payment as we reached the \$1.0 billion cumulative sales level related to the Fumapharm Products in 2013, a \$150.0 million contingent payment as we reached the \$2.0 billion cumulative sales level related to Fumapharm Products in the second quarter of 2014 and accrued \$200.0 million upon reaching \$3.0 billion in total cumulative sales of Fumapharm Products, in the third quarter of 2014.

**Other Off-Balance Sheet Arrangements**

We do not have any relationships with entities often referred to as structured finance or special purpose entities that were 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.

**New Accounting Standards**

For a discussion of new accounting standards please read Note 1, Summary of Significant Accounting Policies - New Accounting Pronouncements to our condensed consolidated financial statements included within this report.

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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, equity, revenues and expenses, and related disclosure of contingent assets and liabilities. 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 2013 Form 10-K. There have been no material changes to these critical accounting estimates since our 2013 Form 10-K.

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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 2013 Form 10-K. There have been no material changes in the first nine months of 2014 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 September 30, 2014. 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 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 September 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II — OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to Note 18, 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 principal products.

Our current revenues depend upon continued sales of our principal products, AVONEX, TECFIDERA, TYSABRI, and RITUXAN. We may be substantially dependent on sales from our principal products for many years, including an increasing reliance on sales of TECFIDERA as we expand into additional markets. 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, generics or related prodrug derivatives, constraints on product pricing or price increases, changes in reimbursement policies of third parties or adverse regulatory or legislative developments, may reduce our revenues and adversely affect our results of operations. We and our competitors are introducing additional multiple sclerosis products in an increasingly crowded market and if those products have a similar or more attractive profile in terms of efficacy, convenience or safety, future sales of our MS products could be adversely affected. Sales of RITUXAN may be adversely affected by commercialized products such as GAZYVA, TREANDA and ARZERRA, and potentially other anti-CD20 and other molecules in development to treat the indications approved for RITUXAN.

Our future revenue growth may be adversely affected if we fail to successfully execute on our commercialization of new products.

If we are unable to successfully execute on our commercialization of new products, such as TECFIDERA, PLEGRIDY, ALPROLIX and ELOCTATE, our future revenue growth and results of operations may be adversely affected, and could cause a decline in our stock price. Our ability to successfully commercialize a product candidate that receives marketing approval depends on a number of factors, including:

- the medical community's acceptance of the product and the confidence of patients in the product;
- pricing and the extent of reimbursement from third party payors;
- the effectiveness of our sales force and marketing efforts;
- the size of the patient population and our ability to attract new patients to our therapies;
- the availability or introduction of competing treatments that are deemed more effective, safer, more convenient, or less expensive;
- the ability to obtain and maintain data or market exclusivity for our products in the relevant indication(s);
- our ability to offer products that have convenient dosing and delivery methods;
- manufacturing the product in a timely and cost-effective manner; and
- compliance with complex regulatory requirements.

Additional factors that may prevent us from successfully executing on our commercialization of TECFIDERA include:

- our sales and marketing efforts may not result in product revenues that meet the investment community's expectations for TECFIDERA;
- intense competition in the increasingly crowded MS market, including the possibility of future competition from generic versions of TECFIDERA or related prodrug derivatives or from off-label use by physicians of therapies indicated for other conditions to treat MS patients;
- damage to physician and patient confidence in TECFIDERA or to our sales and reputation as a result of adverse experiences or events that may occur with patients treated with TECFIDERA;

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our significant reliance on third parties to manufacture TECFIDERA, including the risks these third parties may not be able to supply TECFIDERA in a timely and cost-effective manner or in compliance with applicable regulations or otherwise fail to have sufficient aggregate manufacturing capacity to satisfy demand; and additional risks associated with our anticipated launches of TECFIDERA in the E.U., including the impact of delays and the effects of a slower rollout of TECFIDERA across European countries over an extended number of months, the impact of competitive oral MS therapies approved in the E.U. prior to TECFIDERA, and our ability to obtain appropriate pricing and reimbursement for TECFIDERA in countries throughout the E.U.

Our commercialization efforts for ALPROLIX for hemophilia B and ELOCTATE for hemophilia A, both of which were recently approved by the FDA, may also be impacted by additional factors such as:

- the hemophilia treatment market is highly competitive, with current treatments marketed by companies that have substantially greater financial resources and marketing expertise, and we may have difficulty penetrating this highly competitive market unless our therapies are regarded as offering substantial benefits over current treatments;
- other companies, including those currently offering hemophilia products, may introduce longer-lasting or more efficacious, safer, cheaper or more convenient treatments than our current and potential therapies;
- we do not have marketing experience within the hemophilia treatment market or well-established relationships with the associated medical and scientific community;
- filing of our planned marketing authorization applications with the European Medicines Agency (EMA) requires the submission of positive pediatric data from our ongoing global pediatric studies with our applications, and there can be no assurance that we will receive such positive data; and
- several companies are working to develop additional treatments for hemophilia and may obtain marketing approval of their treatments in the E.U. before we do, which has the potential to bar our application with the EMA under operation of the EMA's Orphan Medicines Regulation.

If we are unable to adequately protect and enforce our data, intellectual property and other proprietary 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 drug and 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 or licensed to us are challenged in court. In addition, court decisions or patent office regulations that place additional restrictions on patent claim scope 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.

Our products may qualify for regulatory exclusivity, which may consist of regulatory data protection and market protection. Although the World Trade Organization's agreement on trade-related aspects of intellectual property rights (TRIPS) requires signatory countries to provide regulatory exclusivity to innovative pharmaceutical products, implementation and enforcement varies widely from country to country. Failure to qualify for regulatory data or market protection, or failure to obtain or maintain the extent or duration of such protections that we expect in each of the markets for our products, could affect our revenue for our products or our decision on whether to market our products in a particular country or countries or could otherwise have an adverse impact on our results of operations.

Our drugs and biologics are susceptible to competition from generics and biosimilars in many markets. The legal and regulatory pathways leading to approval of generics and biosimilars vary widely from country to country and in some cases are not well defined. Manufacturers of generics and biosimilars may choose to launch or attempt to launch their products before the expiration of patent or regulatory data or market protection and to concurrently challenge the patent and regulatory protections covering our products. In the U.S., a high proportion of all approved innovative drugs are met with generic challenge as early as four years following approval. In the E.U., drugs that do not have

regulatory exclusivity may face immediate generic competition. Generic versions of drugs and biosimilars are likely to be sold at substantially lower prices than branded products because the generic or biosimilar manufacturer would not have to recoup the research and development and marketing costs

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associated with the branded product. Accordingly, the introduction of generic or biosimilar versions of our marketed products likely would significantly reduce both the price that we receive for such marketed products and the volume of products that we sell, which may have an adverse impact on our results of operations.

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

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, as well as pressure by employers on private health insurance plans to reduce costs, 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.

In the U.S., federal and state legislatures, health agencies and third-party payors continue to focus on containing the cost of health care. Legislative and regulatory proposals and enactments to reform health care insurance programs could significantly influence the manner in which our products are prescribed and purchased. For example, provisions of the Patient Protection and Affordable Care Act (PPACA) have resulted in changes in the way health care is paid for by both governmental and private insurers, including increased Medicare rebates owed by manufacturers under the Medicaid Drug Rebate Program, annual fees and taxes on manufacturers of certain branded prescription drugs, the requirement that manufacturers participate in a discount program for certain outpatient drugs under Medicare Part D and the expansion of the number of hospitals eligible for discounts. These changes have had and are expected to continue to have a significant impact on our business.

There is also significant economic pressure on state budgets that 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, including laws to allow importation of pharmaceutical products from lower cost jurisdictions outside the U.S. 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. In addition, under the PPACA, as states implement their health care marketplaces or operate under the federal exchange, the impact on drug manufacturers, including us, will depend in part on the formulary and benefit design decisions made by insurance sponsors or plans participating in these programs. It is possible that we may need to provide discounts or rebates to such plans in order to maintain favorable formulary access for our products for this patient population, which could have an adverse impact on our sales and results of operations.

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 have announced or implemented measures to reduce health care costs to constrain their overall level of government expenditures. These measures vary by country and may include, among other things, patient access restrictions, suspensions on price increases, prospective and possibly retroactive price reductions and other recoupsments and increased mandatory discounts or rebates, recoveries of past

price increases, and greater importation of drugs from lower-cost countries to higher-cost countries. These measures have negatively impacted our revenues, and may continue to adversely affect our revenues and results of operations in the future. 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 not only limit the marketing of our products within that country, but may also adversely affect our ability to obtain acceptable prices in other 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.

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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. Discovery of safety issues with our products 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 material write-offs of inventory, material impairments of intangible assets, goodwill and fixed assets, material restructuring charges and other adverse impacts on our results of operations. Regulatory authorities have been moving towards more active and transparent pharmacovigilance and are making greater amounts of stand-alone safety information directly available to the public through periodic safety update reports, patient registries and other reporting requirements. The reporting of adverse safety events involving our products or products similar to ours and public rumors about such events could cause our product sales or stock price to decline or experience periods of volatility.

Our long-term success depends upon the successful development of product candidates.

Our long-term viability and growth will depend upon the successful development of new products from our research and development activities, including products licensed from third parties. Product development is very expensive and involves 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.

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, patient enrollment rates, and compliance with extensive current Good Clinical Practices. We have opened clinical sites and are enrolling patients in a number of countries where our experience is more limited, and we are in most cases using the services of third party clinical trial providers which may impact our ability to control the timing, conduct, expense and quality of our clinical trials. If we fail to adequately manage the design, execution and regulatory aspects of our large, complex and diverse clinical trials, our studies and any potential regulatory approvals may be delayed, or we may fail to gain approvals for our product candidates. Clinical trials may indicate that our product candidates lack efficacy, have harmful side effects or raise safety or other concerns that may significantly reduce the likelihood of regulatory approval, result in significant restrictions on use and safety warnings in the approved label, adversely affect placement within the treatment paradigm, or otherwise significantly diminish the commercial potential of the product candidate. Also, positive results in a registrational trial may not be replicated in any subsequent confirmatory trials. Even if later stage clinical trials are successful, regulatory authorities may disagree with our view of the data or require additional studies, may disagree with the endpoints employed in the trials, may fail to approve the facilities or the processes used to manufacture a product candidate, may fail to approve or delay approval of our product candidates, dosing or delivery methods, or may otherwise grant marketing approval that is more restricted than anticipated, including indications covering narrow patient populations and the imposition of safety monitoring or educational requirements or risk evaluation and mitigation strategies. The occurrence of any such events could result in the incurrence of significant costs and expenses and could otherwise have an adverse effect on our business, including our financial condition and results of operations.

Even if we are able to successfully develop new products, we may make a strategic decision to discontinue development of a product candidate if, for example, we believe commercialization will be difficult relative to other opportunities in our pipeline. Similarly, if we successfully develop a new product, but another company is the first to file for marketing approval of a competing orphan drug candidate, that company may ultimately receive marketing exclusivity for its drug candidate, preventing us from commercializing our orphan drug candidate in the applicable market for several years.

Uncertainty over intellectual property in the biotechnology industry has been the source of litigation and other disputes, 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 our industry about the validity, scope and enforceability of many issued patents in the U.S. and elsewhere in the world, and, to date, the law and practice remains in substantial flux both in the agencies that grant patents and in the courts. 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, services or technologies.

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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, arbitrations, administrative proceedings and other legal actions with private parties and governmental authorities 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, hinder our ability to manufacture and market our products, or result in the assessment of significant monetary damages against us that may exceed amounts, if any, accrued in our financial statements.

To the extent that valid present or future third party patent or other intellectual property rights cover our products, services or technologies, we or our strategic collaborators may seek licenses or other agreements from the holders of such rights in order to avoid or settle legal claims. Such licenses may not be available on acceptable terms, which may hinder our ability to manufacture and market our products and services. Payments under any licenses that we are able to obtain would reduce our profits derived from the covered products and services.

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

The biopharmaceutical 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 or may receive patent protection that dominates, blocks or adversely affects our product development or business. We also expect increased competition in the MS market through the introduction of generic versions of COPAXONE following the expected expiration of Teva Pharmaceutical's patent protection for COPAXONE.

In addition, health care reform legislation enacted in the U.S. in 2010 has created a pathway for the FDA to approve biosimilars or follow-on products, which could compete on price and differentiation with a number of our existing products or products we may market in the future. Biosimilars legislation has also been in place in the E.U. since 2004. In December 2012, guidelines issued by the EMA for approving biosimilars of marketed monoclonal antibody products became effective. If a biosimilar version of one of our products were approved, it could reduce our sales of that product. The introduction by our competitors of more efficacious, safer, cheaper, or more convenient alternatives to our products could also reduce our revenues and the value of our product development efforts.

Sales of TYSABRI are uncertain due to restrictions on use and safety warnings.

Sales of TYSABRI are uncertain 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, which may cause prescribing physicians or patients to suspend treatment with TYSABRI. The risk of developing PML also increases with exposure to JC virus, which may be indicated by the presence of anti-JCV antibodies. Patients testing positive for anti-JCV antibodies or their physicians may refrain from using or prescribing 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, changes to the criteria for confirming PML diagnosis or otherwise, may significantly reduce expected revenues and require significant expense and management time to address the associated legal and regulatory issues. Increased competition, including competition from our own

products, could also negatively impact future sales.

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As we continue to research and develop protocols and therapies intended to reduce risk and improve outcomes of PML in patients, regulatory authorities may not agree with our perspective on such protocols and therapies. Our efforts at stratifying patients into groups with lower or higher risk for developing PML may not result in corresponding changes to the TYSABRI label. Furthermore, our risk stratification efforts may have an adverse impact on prescribing behavior and reduce sales of TYSABRI. The potential utility of the JC virus antibody assay as a risk stratification tool may be diminished as a result of both the assay's false negative rate as well as the possibility that a patient who initially tests negative for the JC virus antibody may acquire the JC virus after testing. An increase in the recommended frequency of retesting with the assay or in the assay's sensitivity may exacerbate these risks or otherwise adversely impact prescribing behavior. In addition, new data may challenge the assumptions or estimates underlying our risk stratification tools, including estimates of the prevalence of JC virus in the general population. We depend on collaborators and other third-parties for both product and royalty revenue, the clinical development of future products and commercialization, marketing and manufacturing of certain products, which are outside of our full control.

We have a number of collaborators and partners, and have both in-licensed and out-licensed several products and programs. In addition to the factors described throughout these "Risk Factors," these collaborations are subject to several other risks, including:

Our revenues related to RITUXAN and GAZYVA 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 or GAZYVA in the same manner or to the same extent that we would, which could adversely affect our RITUXAN or GAZYVA revenues.

Under our collaboration agreement with Genentech, the successful development and commercialization of GAZYVA and certain other anti-CD20 products will decrease our percentage of the collaboration's co-promotion profits. Any failure on the part of our collaborators to comply with applicable laws and regulatory requirements in the sale, marketing and maintenance of the market authorization of our products or to fulfill any responsibilities they may have to protect and enforce any intellectual property rights underlying 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 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, or CROs, to carry out most of our clinical trial related activities and accurately report their results. One CRO has responsibility for substantially all of these activities. These activities include initiating and monitoring the conduct of studies at clinical trial sites, identifying any noncompliance with the study protocol or current Good Clinical Practices and interfacing with regulators throughout the process. The failure of our CROs to conduct these activities with proper vigilance and competence and in accordance with current Good Clinical Practices can result in regulatory authorities rejecting our clinical trial data or causing a trial to be redone or, in some circumstances, could result the imposition of civil or criminal sanctions against us. Additionally, if our CROs do not successfully carry out their activities or meet expected deadlines, we may be required to replace them. Although we believe that there are a number of other third-party contract research organizations we could engage to continue these activities, it may result in delay of the affected trials and our efforts to obtain regulatory approvals for and commercialize our drug candidates could be delayed.

Manufacturing issues could substantially increase our costs and limit supply of our products.

The process of manufacturing our products is complex, highly regulated and subject to several risks:

The process of manufacturing biologics is extremely susceptible to product loss due to contamination, oxidation, equipment failure or improper installation or operation of equipment, or vendor or operator error. Even minor deviations from normal manufacturing processes could result in reduced production yields, product defects and other supply disruptions. If microbial, viral or other contaminations are discovered in our products or manufacturing facilities, we may need to close our manufacturing facilities for an extended period of time to investigate and remediate the contaminant.



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We rely on third party suppliers and manufacturers for, among other things, manufacturing of RITUXAN and GAZYVA, the majority of our clinical and commercial requirements for TECFIDERA and other small molecule products and product candidates, raw materials and supplies for production of products we manufacture, delivery devices such as syringes and autoinjectors, fill-finish operations, the majority of our final product storage, and a substantial portion of our packaging operations. In addition, due to the unique manner in which our products are manufactured, we rely on single source providers of several raw materials and manufacturing supplies. These third parties are independent entities subject to their own unique operational and financial risks that are outside of our control. These third parties may not perform their obligations in a timely and cost-effective manner or in compliance with applicable regulations, and they may be unable or unwilling to increase production capacity commensurate with demand for our existing or future products. Finding alternative providers could take a significant amount of time and involve significant expense due to the specialized nature of the services and the need to obtain regulatory approval of any significant changes to our suppliers or manufacturing methods. We cannot be certain that we could reach agreement with alternative providers or that the FDA or other regulatory authorities would approve our use of such alternatives.

We rely on our manufacturing facilities in Cambridge, Massachusetts, Research Triangle Park, North Carolina (RTP) and Hillerød, Denmark for the production of drug substance for certain of our large molecule products and product candidates, including AVONEX, TYSABRI, PLEGRIDY, ALPROLIX and ELOCTATE. Our global bulk supply of these products and product candidates depends on the uninterrupted and efficient operation of these facilities, which could be adversely affected by equipment failures, labor shortages, natural disasters, power failures and numerous other factors.

We and our third party providers are generally required to maintain compliance with current Good Manufacturing Practices and other stringent requirements and are subject to inspections by the FDA and comparable agencies in other jurisdictions to confirm such compliance. 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 and damage our reputation.

Any adverse developments affecting our manufacturing operations or the operations of our third-party suppliers and manufacturers may result in shipment delays, inventory shortages, lot failures, product withdrawals or recalls, or other interruptions in the commercial supply of our products. We may also have to take inventory write-offs and incur other charges and expenses for products that fail to meet specifications, undertake costly remediation efforts or seek more costly manufacturing alternatives. Such developments could increase our manufacturing costs, cause us to lose revenue or market share as patients and physicians turn to competing therapeutics, diminish our profitability or damage our reputation.

Our business may be adversely affected if we do not manage our current growth and do not successfully execute our growth initiatives.

We have experienced growth in our headcount and operations, which has placed, and will continue to place, significant demands on our management and our operational and financial infrastructure. We anticipate further growing through both internal development projects as well as external opportunities, which may 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 development 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 and other strategic alliances and collaborations, we may not be able to integrate them or take full advantage of them and therefore may not realize the benefits that we expect.

To effectively manage our current and future potential growth, we will need to continue to enhance our operational, financial and management processes and to effectively expand, train and manage our employee base. Supporting our growth initiatives and the further development of our existing products and potential new products in our pipeline will

require significant capital expenditures and management resources, including investments in research and development, sales and marketing, manufacturing capabilities and other areas of our business. If we do not successfully manage our current growth and do not successfully execute our growth initiatives, then our business and financial results may be adversely affected and we may incur asset impairment or restructuring charges.

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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, distributors and other 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 and place greater restrictions on the marketing practices of health care companies. Health care companies are facing heightened scrutiny of their relationships with health care providers from anti-corruption enforcement officials. 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 health care business, submission of false claims for government reimbursement, antitrust violations, or violations related to environmental matters. These risks may be heightened as we continue to expand our global operations and introduce additional products to the market.

Regulations governing the health care industry are subject to change, with possibly retroactive effect, 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, payment for health care products and services, compliance with health information and data privacy and security laws and regulations, tracking and reporting payments and other transfers of value made to physicians and teaching hospitals, and extensive anti-bribery and anti-corruption prohibitions;

- 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;

requirements that may provide for increased transparency of clinical trial results and quality data, which, if implemented could impact our ability to protect competitively-sensitive information contained in approval applications or could be misinterpreted leading to reputational damage, misperception or legal action which could harm our business; and

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.

Examples of previously enacted and possible future changes in laws that could adversely affect our business include the enactment in the U.S. of health care reform, potential regulations easing the entry of competing biosimilars in the marketplace, new legislation or implementation of existing statutory provisions on importation of lower-cost competing drugs from other jurisdictions, enhanced penalties for and investigations into non-compliance with U.S. fraud and abuse laws, and compliance with the Physician Payment Sunshine Act in the U.S. and similar foreign rules and regulations that require collection and reporting of payments or other transfers of value made to physicians and teaching hospitals.

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.

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 that could adversely affect our business, such as:

the inability to obtain necessary foreign regulatory or pricing approvals of products in a timely manner;  
collectability of accounts receivable;  
fluctuations in currency exchange rates;

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- difficulties in staffing and managing international operations;
- the imposition of governmental controls;
- less favorable intellectual property or other applicable laws;
- increasingly complex standards for complying with foreign laws and regulations that may differ substantially from country to country and may conflict with corresponding U.S. laws and regulations;
- the emergence of far-reaching anti-bribery and anti-corruption legislation in the U.K., including passage of the U.K. Bribery Act 2010, and elsewhere and escalation of investigations and prosecutions pursuant to such laws;
- compliance with complex import and export control 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 or withdrawal of an approved product from the market, the imposition of civil or criminal sanctions and the prosecution of executives overseeing our international operations.

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

We own or lease real estate primarily consisting of buildings that contain research laboratories, office space, and biologic manufacturing operations. For strategic or other operational reasons, we may decide to further consolidate or co-locate certain aspects of our business operations or dispose of one or more of our properties, some of which may be located in markets that are experiencing high vacancy rates and decreasing property values. If we determine that the fair value of any of our owned properties is lower than their book value we may not realize the full investment in these properties and incur significant impairment charges. If we decide to fully or partially vacate a leased property, such as we did in connection with our relocation of our corporate headquarters from Weston, Massachusetts to Cambridge, Massachusetts, we may incur significant cost, including lease termination fees, rent expense in excess of sublease income and impairment of leasehold improvements. In addition, we may not fully utilize our manufacturing facilities, resulting in idle time at facilities or substantial excess manufacturing capacity, due to reduced expectations of product demand, improved yields on production and other factors. Any of these events may have an adverse impact on our results of operations.

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 examinations and audits of our tax filings, adjustments to the value of our uncertain tax positions, including those relating to our manufacturing deduction, 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, penalize certain transfer pricing structures, and reduce or eliminate certain foreign or domestic tax credits or deductions. 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.



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The growth of our business depends on our ability to attract and retain qualified personnel and to develop and maintain 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.

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.

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 risks described in these "Risk Factors" as well as the timing of charges and expenses that we may take. We have recorded, or may be required to record, charges that include:

- the cost of restructurings;
- impairments with respect to investments, fixed assets and long-lived assets, including IPR&D and other intangible assets;
- inventory write-downs for failed quality specifications, charges for excess or obsolete inventory and charges for inventory write downs relating to product suspensions, expirations or recalls;
- bad debt expenses and increased bad debt reserves;
- outcomes of litigation and other legal proceedings, regulatory matters and tax matters;
- 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 than expected charges from hedge ineffectiveness or from the termination of a hedge relationship.

In addition, our operating results during any one period do not necessarily suggest the anticipated results of future periods.

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Our portfolio of marketable securities is subject to market, interest and credit risk that may reduce its value. We maintain a portfolio of marketable securities for investment of our cash. Changes in the value of our portfolio of marketable securities could adversely affect our earnings. In particular, the value of our investments may decline due to increases in interest rates, downgrades of the 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 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 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.

A breakdown or breach of our information technology systems could subject us to liability or interrupt the operation of our business.

Many of our key business processes are facilitated by information technology systems. Information technology systems are potentially vulnerable to breakdown, malicious intrusion and random attack. Likewise, individuals authorized to access our information technology systems may pose a risk by exposing private or confidential data to unauthorized persons or to the public. While we believe that we have taken appropriate security measures to minimize these risks to our data and information technology systems, there can be no assurance that our efforts will prevent breakdowns or breaches in our systems that could adversely affect our business.

The illegal distribution and sale by third parties of counterfeit versions of our products or stolen products could have a negative impact on our reputation and business.

Third parties might illegally distribute and sell counterfeit or unfit versions of our products, which do not meet our rigorous manufacturing, distribution and testing standards. A patient who receives a counterfeit or unfit drug may be at risk for a number of dangerous health consequences. Our reputation and business could suffer harm as a result of counterfeit or unfit drugs sold under our brand name. In addition, thefts of inventory at warehouses, plants or while in-transit, which are not properly stored and which are sold through unauthorized channels, could adversely impact patient safety, our reputation and our business.

The increasing use of social media platforms presents new risks and challenges.

Social media is increasingly being used to communicate about our products and the diseases our therapies are designed to treat. Social media practices in the biopharmaceutical industry continue to evolve and regulations relating to such use are not always clear. This evolution creates uncertainty and risk of noncompliance with regulations applicable to our business. For example, patients may use social media channels to comment on the effectiveness of a product or to report an alleged adverse event. When such disclosures occur, there is a risk that we fail to monitor and comply with applicable adverse event reporting obligations or we may not be able to defend the company or the public's legitimate interests in the face of the political and market pressures generated by social media due to restrictions on what we may say about our products. There is also a risk of inappropriate disclosure of sensitive information or negative or inaccurate posts or comments about us on any social networking website. If any of these events were to occur or we otherwise fail to comply with applicable regulations, we could incur liability, face overly restrictive regulatory actions or incur other harm to our business.

Provisions in our Genentech collaboration agreement may discourage a third party from attempting to acquire us.

Provisions in our collaboration agreement with Genentech 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. Our collaboration agreement with Genentech allows 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.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

The following table summarizes our common stock repurchase activity during the third quarter of 2014:

Period	Total Number of Shares Purchased (#)	Average Price Paid per Share (\$)	Total Number of Shares Purchased as Part of Publicly Announced Programs (#)	Maximum Number of Shares That May Yet Be Purchased Under Our Programs (#)
July 2014	76,986	299.75	—	2,947,640
August 2014	—	—	—	2,947,640
September 2014	—	—	—	2,947,640
Total	76,986	299.75		

On February 11, 2011, we announced that our Board of Directors authorized the repurchase of up to 20.0 million shares of common stock. This authorization does not have an expiration date. As of September 30, 2014, approximately 17.1 million shares of our common stock at a cost of \$2,243.0 million have been repurchased under this authorization. During the nine months ended September 30, 2014, we repurchased approximately 1.2 million shares of common stock at a cost of \$360.0 million for the purpose of share stabilization.

Approximately 2.9 million shares of our common stock remain available for repurchase under the 2011 authorization.

## 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.

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SIGNATURES

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

BIOGEN IDEC INC.

/s/ Paul J. Clancy  
Paul J. Clancy  
Executive Vice President and  
Chief Financial Officer  
(principal financial officer)  
October 22, 2014

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.1+*	Annual Retainer Summary for Board of Directors
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 September 30, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

+ Filed herewith

++ Furnished herewith

\* Management contract or compensatory plan or arrangement