

BIOGEN IDEC INC.  
Form 10-Q  
July 24, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended **June 30, 2007**
- 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)*

**33-0112644**

*(I.R.S. Employer  
Identification No.)*

**14 Cambridge Center, 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

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The number of shares of the registrant's Common Stock, \$0.0005 par value, outstanding as of July 13, 2007, was 287,925,669 shares.

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**BIOGEN IDEC INC.**

**FORM 10-Q Quarterly Report  
For the Quarterly Period Ended June 30, 2007**

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**PART I FINANCIAL INFORMATION**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

|  | <b>Three Months Ended</b>                       |                     | <b>Six Months Ended</b> |                    |
|--|---|---------------------|-------------------------|--------------------|
|  | <b>June 30,</b>                                 |                     | <b>June 30,</b>         |                    |
|  | <b>2007</b>                                     | <b>2006</b>         | <b>2007</b>             | <b>2006</b>        |
|  | <b>(In thousands, except per share amounts)</b> |                     |                         |                    |
|  | <b>(Unaudited)</b>                              |                     |                         |                    |
| Revenues:  |   |                     |                         |                    |
| Product  | \$ 518,625                                      | \$ 436,081          | \$ 1,003,013            | \$ 842,600         |
| Unconsolidated joint business  | 230,590   | 206,095             | 437,754                 | 389,476            |
| Other  | 23,961  | 17,865              | 48,319                  | 39,140             |
| <b>Total revenues</b>  | <b>773,176</b>                                  | <b>660,041</b>      | <b>1,489,086</b>        | <b>1,271,216</b>   |
| Costs and expenses:  |   |                     |                         |                    |
| Cost of sales, excluding amortization of acquired intangible assets                  | 84,063  | 77,993              | 166,013                 | 145,488            |
| Research and development   | 218,149   | 161,985             | 409,598                 | 307,877            |
| Selling, general and administrative  | 203,668   | 170,289             | 391,729                 | 324,680            |
| Collaboration profit (loss) sharing  | (105)   |                     | (5,672)                 |                    |
| Amortization of acquired intangible assets   | 60,961  | 76,260              | 120,881                 | 146,967            |
| Acquired in-process research and development   |   | 330,520             | 18,405                  | 330,520            |
| Gain on sale of long lived assets  |   | (799)               |                         | (1,098)            |
| Gain on settlement of license agreement  |   | (34,192)            |                         | (34,192)           |
| <b>Total costs and expenses</b>  | <b>566,736</b>                                  | <b>782,056</b>      | <b>1,100,954</b>        | <b>1,220,242</b>   |
| Income (loss) from operations  | 206,440   | (122,015)           | 388,132                 | 50,974             |
| Other income (expense), net  | 31,586  | 21,806              | 53,288                  | 40,471             |
| Income (loss) before income tax provision and cumulative effect of accounting change | 238,026   | (100,209)           | 441,420                 | 91,445             |
| Income tax expense   | 51,886  | 70,404              | 123,779                 | 142,868            |
| Income (loss) before cumulative effect of accounting change                          | 186,140   | (170,613)           | 317,641                 | (51,423)           |
| Cumulative effect of accounting change, net of income tax                            |   |                     |                         | 3,779              |
| <b>Net income (loss)</b>   | <b>\$ 186,140</b>                               | <b>\$ (170,613)</b> | <b>\$ 317,641</b>       | <b>\$ (47,644)</b> |

|   |         |           |         |           |
|---|---------|-----------|---------|-----------|
| Basic earnings (loss) per share:                            |         |           |         |           |
| Income (loss) before cumulative effect of accounting change | \$ 0.55 | \$ (0.50) | \$ 0.93 | \$ (0.15) |
| Cumulative effect of accounting change, net of income tax   |         |           |         | 0.01      |
| Basic earnings (loss) per share                             | \$ 0.55 | \$ (0.50) | \$ 0.93 | \$ (0.14) |
| Diluted earnings (loss) per share:                          |         |           |         |           |
| Income (loss) before cumulative effect of accounting change | \$ 0.54 | \$ (0.50) | \$ 0.92 | \$ (0.15) |
| Cumulative effect of accounting change, net of income tax   |         |           |         | 0.01      |
| Diluted earnings (loss) per share                           | \$ 0.54 | \$ (0.50) | \$ 0.92 | \$ (0.14) |
| Shares used in calculating:                                 |         |           |         |           |
| Basic earnings (loss) per share                             | 340,315 | 342,375   | 340,312 | 341,742   |
| Diluted earnings (loss) per share                           | 343,389 | 342,375   | 343,713 | 341,742   |

See accompanying notes to the consolidated financial statements.

**Table of Contents****BIOGEN IDEC INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

|  | <b>June 30,<br/>2007</b>  | <b>December 31,<br/>2006</b> |
|--|---|------------------------------|
|  | <b>(In thousands, except per share<br/>amounts)<br/>(Unaudited)</b> |                              |
| <b>ASSETS</b>                                      |   |                              |
| Current assets:                                    |   |                              |
| Cash and cash equivalents                          | \$ 1,611,581  | \$ 661,377                   |
| Marketable securities                              | 191,136   | 241,314                      |
| Accounts receivable, net                           | 359,518   | 317,353                      |
| Due from unconsolidated joint business             | 162,468   | 168,708                      |
| Inventory  | 207,897   | 169,102                      |
| Other current assets                               | 161,406   | 154,713                      |
| Total current assets                               | 2,694,006   | 1,712,567                    |
| Marketable securities                              | 917,403   | 1,412,238                    |
| Property, plant and equipment, net                 | 1,330,899   | 1,280,385                    |
| Intangible assets, net                             | 2,626,838   | 2,747,241                    |
| Goodwill   | 1,135,939   | 1,154,757                    |
| Investments and other assets                       | 230,630   | 245,620                      |
| Total assets                                       | \$ 8,935,715  | \$ 8,552,808                 |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>         |   |                              |
| Current liabilities:                               |   |                              |
| Accounts payable                                   | \$ 99,440   | \$ 100,457                   |
| Taxes payable                                      | 17,106  | 145,529                      |
| Accrued expenses and other                         | 346,456   | 336,869                      |
| Tender obligation (Note 16)                        | 2,990,030   |                              |
| Current portion of notes payable                   | 11,897  |                              |
| Total current liabilities                          | 3,464,929   | 582,855                      |
| Notes payable                                      | 51,348  | 96,694                       |
| Long-term deferred tax liability                   | 588,784   | 643,645                      |
| Other long-term liabilities                        | 193,955   | 79,836                       |
| Total liabilities                                  | 4,299,016   | 1,403,030                    |
| Commitments and contingencies (Notes 4, 10 and 12) |   |                              |
| Shareholders' equity:                              |   |                              |

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|  |              |              |
|--|--------------|--------------|
| Preferred stock, par value \$0.001 per share |              |              |
| Common stock, par value \$0.0005 per share   | 172          | 173          |
| Additional paid-in capital                   | 8,286,958    | 8,308,232    |
| Accumulated other comprehensive income       | 32,167       | 21,855       |
| Accumulated deficit                          | (666,955)    | (860,827)    |
| Tender Offer Obligation (Note 16)            | (2,990,297)  |              |
| Treasury stock, at cost                      | (25,346)     | (319,655)    |
| <br>   |              |              |
| Total shareholders' equity                   | 4,636,699    | 7,149,778    |
| <br>   |              |              |
| Total liabilities and shareholders' equity   | \$ 8,935,715 | \$ 8,552,808 |

See accompanying notes to the consolidated financial statements.



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**BIOGEN IDEC INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | <b>Six Months Ended</b> |                  |
|--|-------------------------|------------------|
|  | <b>June 30,</b>         |                  |
|  | <b>2007</b>             | <b>2006</b>      |
|  | <b>(In thousands)</b>   |                  |
|  | <b>(Unaudited)</b>      |                  |
| <b>Cash flows from operating activities:</b>   |                         |                  |
| Net income (loss)  | \$ 317,641              | \$ (47,644)      |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities |                         |                  |
| Depreciation and amortization of fixed & intangible assets                             | 181,275                 | 198,922          |
| Acquired in process research & development   | 18,405                  | 330,520          |
| Gain on settlement of license agreement  |                         | (34,192)         |
| Stock-based compensation   | 59,419                  | 65,625           |
| Non-cash interest expense (income)   | 1,484                   | (36)             |
| Deferred income taxes  | (18,172)                | (46,098)         |
| Realized (gain) loss on sale of marketable securities and strategic investment         | (6,999)                 | 1,758            |
| Write-down of inventory to net realizable value  | 14,834                  | 12,049           |
| Facility impairment and (gain) loss on disposition, net                                |                         | (1,098)          |
| Impairment of investments and other assets   | 5,513                   | 4,439            |
| Excess tax benefit from stock options  | (9,840)                 | (10,241)         |
| Changes in assets and liabilities, net:  |                         |                  |
| Accounts receivable  | (40,999)                | (20,881)         |
| Due from unconsolidated joint business   | 6,240                   | (23,803)         |
| Inventory  | (52,081)                | (18,657)         |
| Other assets   | (12,885)                | 3,308            |
| Accrued expenses and other current liabilities   | (693)                   | (80,100)         |
| Other liabilities  | 1,205                   | 5,754            |
| <b>Net cash flows provided by operating activities</b>                                 | <b>464,347</b>          | <b>339,625</b>   |
| <b>Cash flows from investing activities:</b>   |                         |                  |
| Purchases of marketable securities   | (1,868,371)             | (1,329,022)      |
| Proceeds from sales and maturities of marketable securities                            | 2,409,802               | 1,023,057        |
| Proceeds from sale of Amevive  |                         | 59,800           |
| Acquisitions, net of cash acquired   | (42,289)                | (363,251)        |
| Purchases of property, plant and equipment   | (117,248)               | (79,722)         |
| Proceeds from sale of property, plant and equipment                                    | 70                      | 35,857           |
| Purchases of other investments   | (15,818)                | (4,305)          |
| Proceeds from the sale of a strategic investment                                       | 30,566                  |                  |
| <b>Net cash flows provided by (used in) investing activities</b>                       | <b>396,712</b>          | <b>(657,586)</b> |
| <b>Cash flows from financing activities:</b>   |                         |                  |

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|  |              |            |
|--|--------------|------------|
| Purchase of treasury stock   |              | (366)      |
| Proceeds from issuance of stock for share based payment arrangements | 81,748       | 74,487     |
| Change in cash overdrafts  | (642)        | (5,303)    |
| Excess tax benefit from stock options                                | 9,840        | 10,241     |
| Repurchase of senior notes   | (6,563)      |            |
| Proceeds of loan from joint venture partner                          |              | 15,231     |
| Repayments of loan to joint venture partner                          | (3,703)      |            |
| Proceeds from line of credit   | 8,133        |            |
| Net cash flow provided by financing activities                       | 88,813       | 94,290     |
| Net increase (decrease) in cash and cash equivalents                 | 949,872      | (223,671)  |
| Effect of exchange rate changes on cash and cash equivalents         | 332          | 607        |
| Cash and cash equivalents, beginning of the period                   | 661,377      | 568,168    |
| Cash and cash equivalents, end of the period                         | \$ 1,611,581 | \$ 345,104 |

Non-cash financing transaction:

See Note 14 Indebtedness and Note 16 Tender Offer for a discussion of non-cash financing transactions that occurred during the six months ended June 30, 2007.

See accompanying notes to the consolidated financial statements.

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**BIOGEN IDEC INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Business Overview**

*Overview*

Biogen Idec Inc. is an international biotechnology company that creates new standards of care in oncology, neurology, immunology and other specialty areas of unmet medical need. We currently have five products: AVONEX<sup>®</sup>, RITUXAN<sup>®</sup>, TYSABRI<sup>®</sup>, FUMADERM<sup>®</sup>, and ZEVALIN<sup>®</sup>.

*Basis of Presentation*

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting of only normal recurring accruals, necessary for a fair statement of our financial position, results of operations, and cash flows. 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, 2006. Our accounting policies are described in the Notes to the Consolidated Financial Statements in our 2006 Annual Report on Form 10-K and updated, as necessary, in this Form 10-Q. The year-end consolidated balance sheet data presented for comparative purposes was derived from audited financial statements. This Form 10-Q does not contain all disclosures required by accounting principles generally accepted in the U.S. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the operating results for the full year or for any other subsequent interim period.

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts and results could differ from those estimates.

*Principles of Consolidation*

The consolidated financial statements reflect our financial statements and those of our wholly-owned subsidiaries and of our joint ventures in Italy and Switzerland. We also consolidate a limited partnership investment in which we are the majority investor. All material intercompany balances and transactions have been eliminated in consolidation.

**2. Inventory**

Inventories are stated at the lower of cost or market with cost determined under the first-in, first-out, or FIFO, method. Included in inventory are raw materials used in the production of pre-clinical and clinical products, which are charged to research and development expense when consumed.

The components of inventory are as follows (in millions):

| <b>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--------------------------|------------------------------|
|--------------------------|------------------------------|

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|                 |    |       |    |       |
|-----------------|----|-------|----|-------|
| Raw materials   | \$ | 54.7  | \$ | 45.7  |
| Work in process |    | 125.1 |    | 105.3 |
| Finished goods  |    | 28.1  |    | 18.1  |
| Total inventory | \$ | 207.9 | \$ | 169.1 |

Included in inventory is TYSABRI inventory that was written off in 2005, due to uncertainties surrounding the TYSABRI suspension, but which is available to fill future orders. The approximate value of this product, based on

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

its original cost of manufacture, is \$13.8 million. As a result, we are recognizing lower than normal cost of sales and, therefore, higher margins.

During the three and six months ended June 30, 2007, we wrote down \$8.1 million and \$14.8 million, respectively, in unmarketable inventory, which was charged to cost of sales. During the three and six months ended June 30, 2006, we wrote down \$8.8 million and \$12.0 million, respectively, in unmarketable inventory, which was also charged to cost of sales.

**3. Revenue Recognition*****Product Revenues***

We recognize revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller's price to the buyer is fixed or determinable; collectibility is reasonably assured; and title and the risks and rewards of ownership have transferred to the buyer.

Except for revenues from sales of TYSABRI in the U.S., revenues from product sales are recognized when product is shipped and title and risk of loss has passed to the customer, typically upon delivery. Sales of TYSABRI in the U.S. are recognized on the sell-through model, that is, upon shipment of the product by our collaboration partner, Elan, to the customer.

Effective January 1, 2007, we changed the manner in which we administer our patient assistance and patient replacement goods programs. Prior to January 1, 2007, AVONEX product shipped to administer these programs was invoiced and recorded as gross product revenue. In addition, an offsetting provision for discount and returns was recorded for expected credit requests from the distributor that administers these programs on our behalf. Effective January 1, 2007, we established a consignment sales model. Under the new arrangement, gross revenue is not recorded for product shipped to satisfy these programs.

***Discounts and Allowances***

Revenues are recorded net of applicable allowances for discounts, contractual adjustments and returns.

We establish reserves for these discounts, which include trade term discounts and wholesaler incentives, contractual adjustments, which include Medicaid rebates, Veteran's Administration rebates and managed care, and returns, which include returns made by wholesalers. Such reserves are classified as reductions of accounts receivable (if the amount is payable to a customer) or as a liability (if the amount is payable to a party other than a customer).

An analysis of the amount of, and change in, reserves is as follows (in millions):

|  | <b>Discounts</b> | <b>Contractual<br/>Adjustments</b> | <b>Returns</b> | <b>Total</b> |
|--|------------------|------------------------------------|----------------|--------------|
| Beginning balance, January 1, 2007                     | \$ 12.7          | \$ 30.5                            | \$ 17.8        | \$ 61.0      |
| Current provisions relating to sales in current period | 20.5             | 47.7                               | 8.4            | 76.6         |
| Adjustments relating to sales in prior periods         |                  | (0.8)                              | 5.2            | 4.4          |

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|  |        |         |         |         |
|--|--------|---------|---------|---------|
| Payments/returns relating to sales in current period | (13.9) | (19.1)  | (33.0)  |         |
| Payments/returns relating to sales in prior periods  | (12.6) | (26.4)  | (13.4)  | (52.4)  |
| Ending balance, June 30, 2007                        | \$ 6.7 | \$ 31.9 | \$ 18.0 | \$ 56.6 |

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The total reserves above were included in the consolidated balance sheets as follows (in millions):

|                                  | <b>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|----------------------------------|--------------------------|------------------------------|
| Reduction of accounts receivable | \$ 27.4                  | \$ 30.2                      |
| Accrued expenses and other       | 29.2                     | 30.8                         |
| Total reserves                   | \$ 56.6                  | \$ 61.0                      |

Reserves for discounts, contractual adjustments and returns reduced gross product revenues as follows (in millions):

|                                   | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months<br/>Ended<br/>June 30,</b> |             |
|-----------------------------------|--|-------------|--|-------------|
|                                   | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                              | <b>2006</b> |
| Discounts                         | \$ 10.0                                | \$ 29.3     | \$ 20.5                                  | \$ 53.2     |
| Contractual adjustments           | 24.1                                   | 19.4        | 46.9                                     | 48.4        |
| Returns                           | 9.3                                    | 14.6        | 13.6                                     | 22.0        |
| Total allowances                  | \$ 43.4                                | \$ 63.3     | \$ 81.0                                  | \$ 123.6    |
| Gross product revenues            | \$ 565.2                               | \$ 501.5    | \$ 1,087.5                               | \$ 967.6    |
| Percent of gross product revenues | 7.7%                                   | 12.6%       | 7.4%                                     | 12.8%       |

Our product revenue reserves are based on estimates of the amounts earned or to be claimed on the related sales. These estimates take into consideration our historical experience, current contractual and statutory requirements, specific known market events and trends and forecasted customer buying patterns. If actual results vary, we may need to adjust these estimates, which could have an effect on earnings in the period of the adjustment.

**4. Acquisitions and Collaboration Agreements*****Syntonix Pharmaceuticals, Inc.***

In January 2007, we acquired 100% of the stock of Syntonix Pharmaceuticals, Inc., or Syntonix, a privately held biopharmaceutical company based in Waltham, Massachusetts. Syntonix focuses on discovering and developing long-acting therapeutic products to improve treatment regimens for chronic diseases, and is engaged in multiple pre-clinical programs in hemophilia. The purchase price was \$44.4 million, including transaction costs, and is subject to increase to as much as \$124.4 million if certain development milestones with respect to Syntonix's lead product, long-acting Factor IX are achieved. The purpose of the acquisition was to enhance our pipeline and to expand into

additional specialized markets.

The acquisition was funded from our existing cash and was accounted for as an asset acquisition as Syntonix is a development-stage company. As a result of the acquisition we obtained the rights to the in-process technology of the Fc-fusion technology platform. Syntonix has two programs in development using the Fc-fusion platform, long-acting Factor IX and long-acting Factor VIII. Syntonix's lead product, long-acting Factor IX, is a proprietary product for the treatment of hemophilia B. Syntonix is expected to file an investigational new drug application with the Food and Drug Administration, or FDA, for long-acting Factor IX in 2007. Long-acting Factor VIII is a product for the treatment of hemophilia A and is approximately two years away from the filing of an investigational new drug application with the FDA.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The results of operations of Syntonix are included in our consolidated results of operations from the date of acquisition. We have completed our purchase price allocation for the acquisition as set out below (in millions):

|                                     |         |
|-------------------------------------|---------|
| Current assets                      | \$ 0.3  |
| Fixed assets                        | 0.2     |
| Deferred tax asset                  | 27.8    |
| Assembled workforce                 | 0.7     |
| In-process research and development | 18.4    |
| Current liabilities                 | (3.0)   |
|                                     | \$ 44.4 |

The purchase price included \$2.0 million in loan forgiveness and \$0.7 million in transaction fees. In addition, \$0.3 million of severance charges were accrued in the six months ended June 30, 2007, as a result of the acquisition.

The amount allocated to in-process research and development, or IPR&D, relates to the development of long-acting Factor IX and long-acting Factor VIII, which are in a development stage. We have spent an additional \$4.8 million to complete long-acting Factor IX and an additional \$34.9 million to complete long-acting Factor VIII since the acquisition. We expect to incur an additional \$0.6 million to complete long-acting Factor IX and an additional \$41.9 million to complete long-acting Factor VIII. The estimated revenues from long-acting Factor IX and long-acting Factor VIII are expected to be recognized beginning in 2012 and 2014, respectively. A discount rate of 13% was used to value these projects which we believe to be commensurate with the stage of development and the uncertainties in the economic estimates described above. At the date of acquisition, these compounds had not reached technological feasibility and had no alternative future use. Accordingly, \$18.4 million in IPR&D was expensed upon acquisition.

Upon acquisition, we recognized a deferred tax asset of \$27.8 million relating, principally, to U.S. federal net operating loss carryforwards that we obtained with the acquisition of Syntonix. The deferred tax asset included approximately \$12.8 million of net operating loss and research credit carryovers that will be utilized prior to applicable expiration dates, as well as approximately \$15.3 million of other deferred tax assets primarily related to start-up and research expenditures that have been capitalized for tax purposes and will be amortized over the next several years.

Future contingent consideration payments, if ultimately payable, will be expensed as research and development.

The total revenue, operating income (loss) and net income (loss) impacts of the acquisition for the six months ended June 30, 2007 and 2006 were not material.

***Cardiokine, Inc.***

In June 2007, we entered into an agreement with Cardiokine, Inc., a privately-held pharmaceutical company, for the joint development of lixivapatan, an oral compound expected to enter a Phase III clinical trial in the second half of 2007 for the potential treatment of hyponatremia in patients with congestive heart failure. The agreement is expected to become effective in the third quarter of 2007, since it is subject to the satisfaction of certain closing conditions and customary approvals.

Under the terms of the agreement, we will pay a \$50.0 million upfront payment and up to \$170.0 million in additional milestone payments for successful development and global commercialization of lixivapatan, as well as royalties for commercial sales. We will be responsible for the global commercialization of lixivapatan and Cardiokine, Inc. will have an option for limited co-promotion in the United States.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Intangible Assets and Goodwill**

As of June 30, 2007 and December 31, 2006, intangible assets and goodwill, net of accumulated amortization, impairment charges and adjustments, are as follows (in millions):

|                           | Estimated<br>Life | As of<br>June 30,<br>2007<br>Accumulated |                     |                   | As of<br>Dec. 31,<br>2006<br>Accumulated |                   |                   |
|---------------------------|-------------------|--|---------------------|-------------------|--|-------------------|-------------------|
|                           |                   | Cost                                     | Amortization        | Net               | Cost                                     | Amortization      | Net               |
| Out-licensed patents      | 12 years          | \$ 578.0                                 | \$ (175.0)          | \$ 403.0          | \$ 578.0                                 | \$ (150.9)        | \$ 427.1          |
| Core/developed technology | 15-20 years       | 3,001.5                                  | (855.9)             | 2,145.6           | 3,001.5                                  | (760.2)           | 2,241.3           |
| Trademarks & tradenames   | Indefinite        | 64.0                                     |                     | 64.0              | 64.0                                     |                   | 64.0              |
| In-licensed patents       | 14 years          | 3.0                                      | (0.6)               | 2.4               | 3.0                                      | (0.5)             | 2.5               |
| Assembled workforce       | 4 years           | 2.1                                      | (0.5)               | 1.6               | 1.4                                      | (0.2)             | 1.2               |
| Distribution rights       | 2 years           | 11.1                                     | (0.9)               | 10.2              | 11.1                                     |                   | 11.1              |
| <b>Total</b>              |                   | <b>\$ 3,659.7</b>                        | <b>\$ (1,032.9)</b> | <b>\$ 2,626.8</b> | <b>\$ 3,659.0</b>                        | <b>\$ (911.8)</b> | <b>\$ 2,747.2</b> |
| Goodwill                  | Indefinite        | \$ 1,135.9                               | \$                  | \$ 1,135.9        | \$ 1,154.8                               | \$                | \$ 1,154.8        |

In the six months ended June 30, 2007, goodwill decreased by \$18.8 million as a result of certain tax adjustments. Approximately \$9.1 million of the adjustments related to the adoption of FIN 48. (See Note 10 for discussion on income taxes). Assembled workforce increased by \$0.7 million as a result of the acquisition of Syntonix.

Amortization expense was \$61.0 million and \$76.3 million in the three months ended June 30, 2007 and 2006, respectively. Amortization expense was \$120.9 million and \$147.0 million for the six months ended June 30, 2007 and 2006, respectively.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Financial Instruments***Marketable Securities, including Strategic Investments*

The following is a summary of marketable securities and investments (in millions):

|                                     | <b>Fair<br/>Value</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Amortized<br/>Cost</b> |
|-------------------------------------|-----------------------|---------------------------------------|--|---------------------------|
| <b>June 30, 2007:</b>               |                       |                                       |  |                           |
| <i>Available-for-sale</i>           |                       |                                       |  |                           |
| Corporate debt securities           |                       |                                       |  |                           |
| Current                             | \$ 104.3              | \$                                    | \$ (0.4)                               | \$ 104.7                  |
| Non-current                         | 292.7                 | 0.1                                   | (1.1)                                  | 293.7                     |
| U.S. Government securities          |                       |                                       |  |                           |
| Current                             | 83.4                  |                                       | (0.7)                                  | 84.1                      |
| Non-current                         | 81.4                  |                                       | (0.4)                                  | 81.8                      |
| Other interest bearing securities   |                       |                                       |  |                           |
| Current                             | 3.4                   |                                       |  | 3.4                       |
| Non-current                         | 543.3                 | 0.9                                   | (1.1)                                  | 543.5                     |
| Total available-for-sale securities | \$ 1,108.5            | \$ 1.0                                | \$ (3.7)                               | \$ 1,111.2                |
| <i>Other Investments</i>            |                       |                                       |  |                           |
| Strategic investments, non-current  | \$ 77.4               | \$ 10.3                               | \$ (3.0)                               | \$ 70.1                   |
| <br>                                |                       |                                       |  |                           |
|                                     | <b>Fair<br/>Value</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Amortized<br/>Cost</b> |
| <b>December 31, 2006:</b>           |                       |                                       |  |                           |
| <i>Available-for-sale</i>           |                       |                                       |  |                           |
| Corporate debt securities           |                       |                                       |  |                           |
| Current                             | \$ 197.1              | \$                                    | \$ (0.7)                               | \$ 197.8                  |
| Non-current                         | 439.4                 | 0.4                                   | (3.2)                                  | 442.2                     |
| U.S. Government securities          |                       |                                       |  |                           |
| Current                             | 40.1                  |                                       | (0.2)                                  | 40.3                      |
| Non-current                         | 270.3                 | 0.3                                   | (1.5)                                  | 271.5                     |
| Other interest bearing securities   |                       |                                       |  |                           |
| Current                             | 4.2                   |                                       | (0.1)                                  | 4.3                       |
| Non-current                         | 702.5                 | 1.6                                   | (2.7)                                  | 703.6                     |
| Total available-for-sale securities | \$ 1,653.6            | \$ 2.3                                | \$ (8.4)                               | \$ 1,659.7                |

*Other Investments*

|                                    |    |       |    |     |    |       |
|------------------------------------|----|-------|----|-----|----|-------|
| Strategic investments, non-current | \$ | 116.9 | \$ | 8.6 | \$ | 108.3 |
|------------------------------------|----|-------|----|-----|----|-------|

In the three and six months ended June 30, 2007, we recognized \$3.1 million and \$5.5 million, respectively, in charges for the impairment of available-for-sale securities that were determined to be other-than-temporary following a decline in value. In the three and six months ended June 30, 2006, we recognized no charges for the impairment of available for sale securities.

Unrealized losses relate to various debt securities, including U.S. Government issues, corporate bonds and asset-backed securities. The unrealized losses on these securities were primarily caused by a rise in interest rates subsequent to purchase. We believe that these unrealized losses are temporary, and we have the intent and ability to hold these securities to recovery, which may be at maturity.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The proceeds from maturities and sales of marketable securities, which were primarily reinvested, and resulting realized gains and losses were as follows (in millions):

|                                    | <b>Three Months<br/>Ended June 30,</b> |             | <b>Six Months<br/>Ended June 30,</b> |             |
|------------------------------------|--|-------------|--------------------------------------|-------------|
|                                    | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Proceeds from maturities and sales | \$ 1,606.1                             | \$ 665.2    | \$ 2,409.8                           | \$ 1,023.1  |
| Realized gains                     | \$ 1.5                                 | \$ 0.3      | \$ 2.0                               | \$ 0.6      |
| Realized losses                    | \$ 3.5                                 | \$ 1.3      | \$ 3.8                               | \$ 2.3      |

The amortized cost and estimated fair value of securities available-for-sale at June 30, 2007 by contractual maturity are as follows (in millions):

|  | <b>Estimated<br/>Fair Value</b> | <b>Amortized<br/>Cost</b> |
|--|---------------------------------|---------------------------|
| Due in one year or less                    | \$ 196.6                        | \$ 197.6                  |
| Due after one year through five years      | 369.0                           | 370.5                     |
| Mortgage and other asset backed securities | 542.9                           | 543.1                     |
| Total                                      | \$ 1,108.5                      | \$ 1,111.2                |

The average maturity of our marketable securities as of June 30, 2007 and December 31, 2006, was 22 months and 18 months, respectively.

***Strategic Investments***

In the three and six months ended June 30, 2007, we recognized no charges for the impairment of investments that were deemed to be other than temporary. In June 2007, we sold 49% of our share in one strategic investment for \$48.2 million, which resulted in an \$8.1 million gain. In July 2007, we sold the remaining portion of this strategic investment for \$50.7 million, which resulted in an additional gain of approximately \$9.1 million. In the three and six months ended June 30, 2006, we recognized \$2.3 million and \$4.4 million in charges, respectively, for the impairment of investments that were deemed to be other than temporary.

***Non-Marketable Securities***

We hold investments in equity securities of certain privately held biotechnology companies or biotechnology oriented venture capital funds. The carrying value of these strategic investments at June 30, 2007, and December 31, 2006, was \$46.6 million and \$32.6 million, respectively.

In the six months ended June 30, 2007, we recorded \$0.4 million in charges for the impairment of investments that were determined to be other-than-temporary. In the three and six months ended June 30, 2006, we recorded no charges

for the impairment of investments that were determined to be other-than-temporary.

***Forward Contracts***

We have foreign currency forward contracts to hedge specific forecasted transactions denominated in foreign currencies. All foreign currency forward contracts in effect at June 30, 2007 have durations of three to six months. These contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the completion of the underlying hedge transaction. To the extent ineffective, hedge transaction gains and losses are reported in other income (expense).

The notional settlement amount of the foreign currency forward contracts outstanding at June 30, 2007 was approximately \$162.1 million. These contracts had an aggregate fair value of \$3.8 million, representing an unrealized loss, and were included in other current liabilities at June 30, 2007. The notional settlement amount of

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the foreign currency forward contracts outstanding at December 31, 2006 was approximately \$293.2 million. These contracts had an aggregate fair value of \$0.2 million, representing an unrealized loss, and were included in other current liabilities at December 31, 2006.

In the six months ended June 30, 2007, there was \$0.6 million recognized in earnings as a loss due to hedge ineffectiveness. In the three and six months ended June 30, 2006, we recognized \$0.2 million and \$0.9 million, respectively, of losses in earnings due to hedge ineffectiveness. \$1.1 million and \$1.1 million was recognized in product revenue for the settlement of certain effective cash flow hedge instruments for the three and six months ended June 30, 2007, respectively, as compared to approximately \$2.9 million and \$3.7 million, of losses for the three and six months ended June 30, 2006, respectively. These settlements were recorded in the same period as the related forecasted transactions affecting earnings.

**7. Comprehensive Income**

The activity in comprehensive income, net of income taxes, was as follows (in millions):

|  | <b>Three Months<br/>Ended June 30,</b> |             | <b>Six Months<br/>Ended June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Net income (loss)  | \$ 186.1                               | \$ (170.6)  | \$ 317.6                             | \$ (47.6)   |
| Translation adjustments  | 5.5                                    | 14.8        | 11.2                                 | 19.6        |
| Net unrealized gains (losses) on available-for-sale marketable securities, net of tax of \$2.1 million, \$24.3 million, (\$0.6) million and \$15.3 million, respectively | (4.0)                                  | (39.1)      | 1.5                                  | (23.7)      |
| Net unrealized losses on foreign currency forward contracts, net of tax of \$0.6 million, \$1.7 million, \$1.3 million, and \$2.7 million, respectively                  | (1.0)                                  | (2.8)       | (2.3)                                | (4.5)       |
| Total comprehensive income (loss)  | \$ 186.6                               | \$ (197.7)  | \$ 328.0                             | \$ (56.2)   |



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Earnings per Share**

Basic and diluted earnings per share are calculated as follows (in millions):

|  | <b>Three Months<br/>Ended June 30,</b> |             | <b>Six Months<br/>Ended June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Numerator:   |  |             |                                      |             |
| Income (loss) before cumulative effect of accounting change                | \$ 186.1                               | \$ (170.6)  | \$ 317.6                             | \$ (51.4)   |
| Cumulative effect of accounting change                                     |  |             |                                      | 3.8         |
| Net income (loss)  | 186.1                                  | (170.6)     | 317.6                                | (47.6)      |
| Adjustment for net income (loss) allocable to preferred shares             | 0.2                                    |             | 0.4                                  |             |
| Net income (loss) used in calculating basic and diluted earnings per share | \$ 185.9                               | \$ (170.6)  | \$ 317.2                             | \$ (47.6)   |
| Denominator:   |  |             |                                      |             |
| Weighted average number of common shares outstanding                       | 340.3                                  | 342.4       | 340.3                                | 341.7       |
| Effect of dilutive securities:   |  |             |                                      |             |
| Stock options and ESPP   | 1.9                                    |             | 1.9                                  |             |
| Restricted Stock Units   | 0.6                                    |             | 0.6                                  |             |
| Performance-based restricted stock units                                   |  |             | 0.1                                  |             |
| Restricted stock awards  | 0.4                                    |             | 0.5                                  |             |
| Convertible promissory notes due 2019                                      | 0.2                                    |             | 0.3                                  |             |
| Dilutive potential common shares   | 3.1                                    |             | 3.4                                  |             |
| Shares used in calculating diluted earnings (loss) per share               | 343.4                                  | 342.4       | 343.7                                | 341.7       |

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

|   | <b>Three Months<br/>Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2007</b>                                | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Numerator:                                      |  |             |                                      |             |
| Net income (loss) allocable to preferred shares | \$ 0.2                                     | \$ (0.2)    | \$ 0.4                               | \$ (0.1)    |
| Denominator:                                    |  |             |                                      |             |
| Stock options                                   | 13.8                                       | 19.0        | 13.7                                 | 19.6        |

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|                                      |      |      |      |      |
|--------------------------------------|------|------|------|------|
| Time-vested restricted stock units   | 1.7  | 0.3  | 1.3  | 0.2  |
| Restricted Stock Awards              |      | 0.9  |      | 0.8  |
| Convertible Promissory note due 2019 |      | 3.0  |      | 3.0  |
| Convertible Promissory note due 2032 |      | 0.1  |      | 0.1  |
| Convertible preferred stock          | 0.5  | 0.5  | 0.5  | 0.5  |
| Total                                | 16.0 | 23.8 | 15.5 | 24.2 |

As a result of the tender offer described in Note 16, Tender Offer, earnings per share reflects on a weighted average basis the repurchase of 56,424,155 shares as of June 27, 2007, the date the obligation was incurred, in

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

accordance with FASB Statement No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, or SFAS 150*.

In the three months ended June 30, 2007, we reclassified amounts within the statement of shareholder's equity on the accompanying balance sheet resulting in a \$48 million correction in the treasury stock balance.

**9. Share-Based Payments**

In the three months ended June 30, 2007 and 2006, share-based compensation expense reduced our results of operations as follows (in millions, except for earnings per share):

|                            | <b>Three Months<br/>Ended<br/>June 30, 2007<br/>Effect on<br/>Net Income</b> |       | <b>Three Months<br/>Ended<br/>June 30, 2006<br/>Effect on Net<br/>Income</b> |        |
|----------------------------|--|-------|--|--------|
| Income before income taxes | \$   | 29.9  | \$   | 40.3   |
| Tax effect                 |  | (9.1) |  | (12.9) |
| Net income                 | \$   | 20.8  | \$   | 27.4   |
| Basic earnings per share   | \$   | 0.06  | \$   | 0.08   |
| Diluted earnings per share | \$   | 0.06  | \$   | 0.08   |

In the six months ended June 30, 2007 and 2006, share-based compensation expense reduced our results of operations as follows (in millions, except for earnings per share):

|                            | <b>Six Months<br/>Ended<br/>June 30,<br/>2007</b> |   | <b>Six Months Ended June 30, 2006</b>                     |                                     |  |
|----------------------------|---|---|---|-------------------------------------|--|
|                            | <b>Effect on<br/>Net Income</b>                   | <b>Impact Before<br/>Cumulative<br/>Effect<br/>of Accounting<br/>Change</b> | <b>Cumulative<br/>Effect<br/>of Accounting<br/>Change</b> | <b>Effect on<br/>Net<br/>Income</b> |  |
| Income before income taxes | \$ 59.4   | \$ 69.5   | \$ (5.6)  | \$ 63.9                             |  |
| Tax effect                 | (18.3)  | (22.0)  | 1.8   | (20.2)                              |  |
| Net income                 | \$ 41.1   | \$ 47.5   | \$ (3.8)  | \$ 43.7                             |  |

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|                            |      |    |      |    |        |    |      |
|----------------------------|------|----|------|----|--------|----|------|
| Basic earnings per share   | 0.12 | \$ | 0.14 | \$ | (0.01) | \$ | 0.13 |
| Diluted earnings per share | 0.12 | \$ | 0.14 | \$ | (0.01) | \$ | 0.13 |

Share-based compensation expense and cost in the three months ended June 30, 2007 and 2006 is as follows (in millions):

|  | Three Months Ended June 30,<br>2007 |   |         | Three Months Ended June 30, 2006 |   |         |
|--|-------------------------------------|---|---------|----------------------------------|---|---------|
|  | Stock<br>Options<br>&<br>ESPP       | Restricted<br>Stock<br>and<br>Restricted<br>Stock Units | Total   | Stock<br>Options<br>&<br>ESPP    | Restricted<br>Stock<br>and<br>Restricted<br>Stock Units | Total   |
| Research and development                 | \$ 3.0                              | \$ 9.9  | \$ 12.9 | \$ 6.4                           | \$ 10.9   | \$ 17.3 |
| Selling, general and<br>administrative   | 5.3                                 | 12.7  | 18.0    | 8.3                              | 16.0  | 24.3    |
| Total                                    | \$ 8.3                              | \$ 22.6   | \$ 30.9 | \$ 14.7                          | \$ 26.9   | \$ 41.6 |
| Capitalized share-based<br>payment costs |                                     |   | (1.0)   |                                  |   | (1.3)   |
| Share-based compensation<br>expense      |                                     |   | \$ 29.9 |                                  |   | \$ 40.3 |

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In the six months ended June 30, 2006, the expense is net of a cumulative pre-tax adjustment of \$5.6 million resulting from the application of an estimated forfeiture rate for prior period unvested restricted stock awards.

Share-based compensation expense and cost for the six months ended June 30, 2007 and 2006 is as follows (in millions):

|   | Six Months Ended June 30, 2007 |   |         | Six Months Ended June 30, 2006 |   |         |
|---|--------------------------------|---|---------|--------------------------------|---|---------|
|   | Stock<br>Options<br>& ESPP     | Restricted<br>Stock<br>and<br>Restricted<br>Stock Units | Total   | Stock<br>Options<br>& ESPP     | Restricted<br>Stock<br>and<br>Restricted<br>Stock Units | Total   |
| Research and development                      | \$ 6.0                         | \$ 17.6   | \$ 23.6 | \$ 11.4                        | \$ 17.3   | \$ 28.7 |
| Selling, general and<br>administrative        | 11.5                           | 26.3  | \$ 37.8 | 16.7                           | 25.8  | 42.5    |
| Total   | \$ 17.5                        | \$ 43.9   | \$ 61.4 | \$ 28.1                        | \$ 43.1   | \$ 71.2 |
| Pre-tax cumulative effect<br>catch-up         |                                |   |         |                                |   | (5.6)   |
| Pre-tax effect of share-based<br>compensation |                                |   | \$ 61.4 |                                |   | \$ 65.6 |
| Capitalized share-based<br>payment costs      |                                |   | (2.0)   |                                |   | (1.7)   |
| Share-based compensation<br>expense           |                                |   | \$ 59.4 |                                |   | \$ 63.9 |

**Stock options**

In February of 2007 and 2006, we made our annual awards of stock options. Approximately 1.0 million stock options were awarded as part of the annual award in February 2007 and bore an exercise price of \$49.31 per share. Approximately 0.9 million stock options were awarded as part of the annual grant in February 2006 and bore an exercise price of \$44.24 per share.

The fair value of the stock option grants awarded in the six months ended June 30, 2007 and 2006 were estimated as of the date of grant using a Black-Scholes option valuation model that uses the following weighted-average assumptions:

**Six Months**

|                                 | <b>Ended June 30,</b> |             |
|---------------------------------|-----------------------|-------------|
|                                 | <b>2007</b>           | <b>2006</b> |
| Expected dividend yield         | 0.0%                  | 0.0%        |
| Expected stock price volatility | 33.6%                 | 34.8%       |
| Risk-free interest rate         | 4.51%                 | 4.42%       |
| Expected option life in years   | 4.87                  | 4.87        |
| Per share grant-date fair value | \$ 18.22              | \$ 16.93    |

***Time-Vested Restricted Stock Units***

In February of 2007 and 2006, we made our annual awards of time-vested restricted stock units, or RSUs. Approximately 2.3 million RSUs were awarded as part of the annual grant in February 2007 at a grant date fair value of \$49.31 per share. Approximately 2.2 million RSUs were awarded as part of the annual grant in February 2006 at a grant date fair value of \$44.24 per share.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Performance-Based Restricted Stock Units***

On March 14, 2007, 258,000 performance-based RSUs vested and were converted into shares of common stock. The shares had been earned by employees pursuant to the terms of the awards granted in September 2005. The amounts that vested represented 83% of the remaining 30% of the total shares issued under the program that had not already vested in September 2006.

In addition, in February 2007, 100,000 performance-based RSUs, granted to our CEO in February 2006, vested and were converted into shares of common stock.

In June 2006, we committed to grant 120,000 performance-based RSUs to an executive. The first tranche of 30,000 RSUs was granted in January 2007 and the remaining 90,000 were granted in June 2007. This tranche, and subsequent tranches, are subject to performance conditions established at the time of issuance. The total grant of 120,000 RSUs is being recognized as compensation expense over the requisite service period of four years as if it were multiple awards, in accordance with FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Options or Award Plans*.

***Employee Stock Purchase Plan***

In the three months ended June 30, 2007 and 2006, 0.1 million and 0.1 million shares, respectively, were issued under the employee stock purchase plan, or ESPP. In the six months ended June 30, 2007 and 2006, 0.3 million and 0.3 million shares, respectively, were issued under the ESPP. In the three months ended June 30, 2007 and 2006, we recorded compensation charges of approximately \$0.4 million and \$2.1 million, respectively, of stock compensation charges related to the ESPP. In the six months ended June 30, 2007 and 2006, we recorded compensation charges of approximately \$1.2 million and \$4.8 million, respectively, of stock compensation charges related to the ESPP.

**10. Income Taxes*****Tax Rate***

Our effective tax rate was 21.8% on pre-tax income for the three months ended June 30, 2007, compared to (70.3)% for the comparable period in 2006. Our effective tax rate was 28.0% on pre-tax income for the six months ended June 30, 2007, compared to 156.2% for the comparable period in 2006.

A reconciliation of the U.S. federal statutory tax rate to the effective tax rate for the three and six months ended June 30, 2007 and 2006, respectively, is as follows:

|  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Statutory Rate                             | 35.0%                                  | 35.0%       | 35.0%                                | 35.0%       |
| State Taxes                                | 1.7                                    | (3.6)       | 1.9                                  | 7.9         |
| Foreign Taxes                              | (8.0)                                  | 12.8        | (7.7)                                | (26.9)      |
| Credits and net operating loss utilization | (3.7)                                  | 0.3         | (2.5)                                | (0.9)       |

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|   |       |         |       |        |
|---|-------|---------|-------|--------|
| Other   | (6.8) | (4.2)   | (3.4) | 6.5    |
| Fair Value Adjustment                             | 3.6   | (7.1)   | 3.1   | 21.2   |
| IPR&D   |       | (115.4) | 1.6   | 126.5  |
| Gain on Settlement of Fumapharm License Agreement |       | 11.9    |       | (13.1) |
|   | 21.8% | (70.3)% | 28.0% | 156.2% |



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Contingency***

On September 12, 2006, we received a Notice of Assessment from the Massachusetts Department of Revenue for \$38.9 million, including penalties and interest, with respect to the 2001, 2002 and 2003 tax years. We believe that we have meritorious defenses to the proposed adjustment and will vigorously oppose the assessment. We believe that the assessment does not impact the level of our liabilities for income tax contingencies. However, there is a possibility that we may not prevail in all of our assertions. If this is resolved unfavorably in the future, it could have a material impact on our future effective tax rate and our results of operations in the period in which the resolution occurs.

***Adoption of FASB Interpretation No. 48***

Effective January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of each tax position taken or expected to be taken in a tax return. As a result of the adoption of FIN 48, we recognized a reduction in the liability for unrecognized tax benefits of \$14.2 million, which was recorded as a \$1.8 million reduction to the January 1, 2007 balance of our accumulated deficit, a \$9.1 million reduction in goodwill and a \$3.3 million increase in our deferred tax liability.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

|  |          |
|--|----------|
| Balance at January 1, 2007                                     | \$ 196.8 |
| Additions based on tax positions related to the current period | 12.1     |
| Additions for tax positions of prior periods                   | 51.4     |
| Reductions for tax positions of prior periods                  | (69.1)   |
| Settlements  | (18.7)   |
| Balance at June 30, 2007                                       | \$ 172.5 |

Included in the balance at June 30, 2007 and January 1, 2007, are \$77.9 million and \$98.2 million (net of the federal benefit on state issues), respectively, of unrecognized tax benefits that, if recognized, would affect the effective income tax rate in any future periods.

We recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the three months ended June 30, 2007 and 2006, we recognized approximately \$0.9 million and \$1.9 million in interest. Additionally, during the three months ended June 30, 2007, we reduced interest expense by \$1.0 million due to the completion of an IRS examination as described below. During the six months ended June 30, 2007 and 2006, we recognized approximately \$6.1 million and \$5.2 million in interest. We had accrued approximately \$26.4 million and \$20.3 million for the payment of interest at June 30, 2007 and January 1, 2007, respectively.

We file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2001. During the second quarter of 2007, the IRS completed its examination of Biogen

Idec Inc. s consolidated federal income tax returns for the fiscal years 2003 and 2004 and issued an assessment. We subsequently paid amounts related to issues agreed to with the IRS and are appealing several issues. As a result of this examination activity, Biogen Idec Inc. reassessed its liability for income tax contingencies to reflect the IRS findings and recorded a \$14.7 million reduction during the second quarter of 2007.

In connection with the adoption of FIN 48, we reclassified approximately \$113 million in reserves for uncertain tax positions from current taxes payable to long-term liabilities.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. Other Income (Expense), Net**

Total other income (expense), net, consists of the following (in millions):

|                                   | <b>Three Months<br/>Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-----------------------------------|--|-------------|--------------------------------------|-------------|
|                                   | <b>2007</b>                                | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Interest income                   | \$ 32.1                                    | \$ 26.1     | \$ 61.2                              | \$ 49.7     |
| Interest expense                  | (1.9)                                      | (0.2)       | (2.3)                                | (0.5)       |
| Other income/(expense), net       | 1.4  | (4.1)       | (5.6)                                | (8.7)       |
| Total other income (expense), net | \$ 31.6                                    | \$ 21.8     | \$ 53.3                              | \$ 40.5     |

In the three months ended June 30, 2007, the principal components of other income (expense), net, were minority interest expense (\$1.9 million), and net realized losses on sales of marketable securities (\$5.0 million) offset by income related to legal settlements (\$1.6 million), and net realized gains on sales of strategic investments (\$8.1 million). In the three months ended June 30, 2006, the principal components of other income (expense), net, were realized losses on investments (\$0.9 million), expenses related to legal settlements (\$2.1 million), net realized losses on our strategic investments (\$2.3 million), and minority interest expense (\$2.1 million), offset by gains on foreign currency (\$3.6 million).

In the six months ended June 30, 2007, the principal components of other income (expense), net, were minority interest expense (\$4.0 million), and net realized losses on sales of marketable securities (\$7.3 million) offset by net realized gains on our strategic investments (\$8.0 million). In the six months ended June 30, 2006, the principal components of other income (expense), net, were realized losses on investments (\$1.8 million), minority interest expense (\$4.1 million), net realized losses on our strategic investments (\$4.4 million), and expenses related to legal settlements (\$3.6 million), offset by gains on foreign currency (\$5.4 million).

**12. Litigation**

On March 2, 2005, we, along with William H. Rastetter, our former Executive Chairman, and James C. Mullen, our Chief Executive Officer, were named as defendants in a purported class action lawsuit, captioned *Brown v. Biogen Idec Inc., et al.* ( *Brown* ), filed in the U.S. District Court for the District of Massachusetts (the *Court* ). The complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The action is purportedly brought on behalf of all purchasers of our publicly-traded securities between February 18, 2004 and February 25, 2005. The plaintiff alleges that the defendants made materially false and misleading statements regarding potentially serious side effects of TYSABRI in order to gain accelerated approval from the FDA for the product's distribution and sale. The plaintiff alleges that these materially false and misleading statements harmed the purported class by artificially inflating our stock price during the purported class period and that company insiders benefited personally from the inflated price by selling our stock. The plaintiff seeks unspecified damages, as well as interest, costs and attorneys' fees. Substantially similar actions, captioned *Grill v. Biogen Idec Inc., et al.* and *Lobel v. Biogen Idec Inc., et al.*, were filed on March 10, 2005 and April 21, 2005, respectively, in the

same court by other purported class representatives. Those actions have been consolidated with the Brown case. On October 13, 2006, the plaintiffs filed an amended consolidated complaint which, among other amendments to the allegations, adds as defendants Peter N. Kellogg, our Chief Financial Officer, William R. Rohn, our former Chief Operating Officer, Burt A. Adelman, our Executive Vice President, Portfolio Strategy, and Thomas J. Bucknum, our former General Counsel. On November 15, 2006, we and all the other defendants who had been served as of that date filed a motion to dismiss the amended consolidated complaint. The plaintiffs' opposition to our Motion to Dismiss was filed on December 18, 2006 and a hearing on the Motion to Dismiss was held before a Magistrate Judge on March 12, 2007. On June 28, 2007, prior to any further action by the Magistrate Judge on the Motion to Dismiss, the District Court Judge withdrew the referral to the Magistrate Judge, and ordered that the Motion to Dismiss be argued before the District Court Judge on September 11, 2007. We

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

believe that the actions are without merit and intend to contest them vigorously. At this early stage of litigation, we cannot make any estimate of a potential loss or range of loss.

On June 9, 2005, we, along with numerous other companies, received a request for information from the U.S. Senate Committee on Finance, or the Committee, concerning the Committee's review of issues relating to the Medicare and Medicaid programs' coverage of prescription drug benefits. On January 9, 2006, we, along with numerous other companies, received a further request for information from the Committee. We filed a timely response to the request on March 6, 2006 and have cooperated fully with the Committee's information requests. We are unable to predict the outcome of this review or the timing of its resolution at this time.

On October 4, 2004, Genentech, Inc. received a subpoena from the U.S. Department of Justice requesting documents related to the promotion of RITUXAN. We market RITUXAN in the U.S. in collaboration with Genentech. Genentech has disclosed that it is cooperating with the associated investigation which they disclosed that they have been advised is both civil and criminal in nature. Genentech has reported further that the government has called and is expected to call former and current Genentech employees to appear before a grand jury in connection with this investigation. We are cooperating with the U.S. Department of Justice in its investigation of Genentech. The potential outcome of this matter and its impact on us cannot be determined at this time.

Along with several other major pharmaceutical and biotechnology companies, Biogen, Inc. (now Biogen Idec MA, Inc., one of our wholly-owned subsidiaries) or, in certain cases, Biogen Idec Inc., was named as a defendant in lawsuits filed by the City of New York and numerous Counties of the State of New York. All of the cases' except for cases filed by the County of Erie, County of Nassau, County of Oswego and County of Schenectady' are the subject of a Consolidated Complaint ( Consolidated Complaint ), which was filed on June 15, 2005, and amended on June 8, 2007, in the U.S. District Court for the District of Massachusetts in Multi-District Litigation No. 1456 ( the MDL proceedings ). The County of Nassau filed an original complaint on November 23, 2004 and a second amended complaint on January 6, 2006 in the MDL proceedings. Thereafter, the County of Nassau joined in the amended Consolidated Complaint filed on June 8, 2007 in the MDL proceedings. The County of Erie, County of Oswego and County of Schenectady cases have been removed and transferred to the MDL proceedings, and are currently subject to motions to remand these cases to state court.

All of the complaints in these cases allege that the defendants (i) fraudulently reported the Average Wholesale Price for certain drugs for which Medicaid provides reimbursement ( Covered Drugs ); (ii) marketed and promoted the sale of Covered Drugs to providers based on the providers' ability to collect inflated payments from the government and Medicaid beneficiaries that exceeded payments possible for competing drugs; (iii) provided financing incentives to providers to over-prescribe Covered Drugs or to prescribe Covered Drugs in place of competing drugs; and (iv) overcharged Medicaid for illegally inflated Covered Drugs reimbursements. Among other things, the complaints allege violations of New York state law and advance common law claims for unfair trade practices, fraud, and unjust enrichment. In addition, the amended Consolidated Complaint alleges that the defendants failed to accurately report the best price on the Covered Drugs to the Secretary of Health and Human Services pursuant to rebate agreements, and excluded from their reporting certain discounts and other rebates that would have reduced the best price.

On April 2, 2007, the defendants' joint motion to dismiss the original Consolidated Complaint and the County of Nassau's second amended complaint was granted in part, but certain claims against Biogen Idec remained. Biogen Idec's individual motion to dismiss these complaints remains pending. The defendants filed a joint motion to dismiss the amended Consolidated Complaint on June 22, 2007. That motion has not yet been decided. On September 7, 2006, a New York State court granted in part and denied in part Biogen Idec's motion to dismiss the County of Erie complaint. Biogen Idec subsequently answered the complaints filed by the Counties of Erie, Oswego and

Schenectady. Biogen Idec intends to defend itself vigorously against all of the allegations and claims in these lawsuits. At this stage of the litigation, we cannot make any estimate of a potential loss or range of loss.

Along with several other major pharmaceutical and biotechnology companies, we were also named as a defendant in a lawsuit filed by the Attorney General of Arizona. The lawsuit was filed in the Superior Court of the State of Arizona and transferred to the MDL proceedings. The complaint, as amended on March 13, 2007, is

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

brought on behalf of Arizona consumers and other payors for drugs, and alleges that the defendants violated the state consumer fraud statute by fraudulently reporting the Average Wholesale Price for certain drugs covered by various private and public insurance mechanisms and by marketing these drugs to providers based on the providers' ability to collect inflated payments from third-party payors. Motions to dismiss the complaint have not yet been filed and briefed. We intend to defend ourselves vigorously against all of the allegations and claims in this lawsuit. At this stage of the litigation, we cannot make any estimate of a potential loss or range of loss.

On January 6, 2006, we were served with a lawsuit, captioned United States of America ex rel. Paul P. McDermott v. Genentech, Inc. and Biogen Idec, Inc., filed in the United States District Court of the District of Maine ( Court ). The lawsuit was filed under seal on July 29, 2005 by a former employee of our co-defendant Genentech pursuant to the False Claims Act, 31 U.S.C. section 3729 et. seq. On December 20, 2005, the U.S. government elected not to intervene, and the complaint was subsequently unsealed and served. On April 4, 2006, the plaintiff filed his first amended complaint alleging, among other things, that we directly solicited physicians and their staff members to illegally market off-label uses of RITUXAN for treating rheumatoid arthritis, provided illegal kickbacks to physicians to promote off-label uses, trained our employees in methods of avoiding the detection of these off-label sales and marketing activities, formed a network of employees whose assigned duties involved off-label promotion of RITUXAN, intended and caused the off-label promotion of RITUXAN to result in the submission of false claims to the government, and conspired with Genentech to defraud the government. The plaintiff seeks entry of judgment on behalf of the United States of America against the defendants, an award to the plaintiff as relator, and all costs, expenses, attorneys' fees, interest and other appropriate relief. On May 4, 2006, we filed a motion to dismiss the first amended complaint on the grounds that the Court lacks subject matter jurisdiction, the complaint fails to state a claim and the claims were not pleaded with particularity. On December 14, 2006, the Magistrate Judge recommended that the Court dismiss the case based on our and Genentech's Motion to Dismiss. The Plaintiff filed objections to this recommendation and the matter awaits decision by the District Court Judge. At this stage of the litigation, we cannot make any estimate of a potential loss or range of loss.

On June 17, 2006, Biogen Idec filed a Demand for Arbitration against Genentech, Inc. with the American Arbitration Association ( AAA ). In the Demand for Arbitration, Biogen Idec alleged that Genentech breached the parties' Amended and Restated Collaboration Agreement dated June 19, 2003 (the Collaboration Agreement ), by failing to honor Biogen Idec's contractual right to participate in strategic decisions affecting the parties' joint development and commercialization of certain pharmaceutical products, including humanized anti-CD20 antibodies. The original Demand for Arbitration filed by Biogen Idec focused primarily on Genentech's unilateral development of an anti-CD20 product known as a second generation anti-CD20 molecule to treat Neuromyelitis Optica ( NMO ), a relatively rare disorder of the central nervous system. Genentech filed an Answering Statement in response to Biogen Idec's Demand in which Genentech denied that it had breached the Collaboration Agreement and alleged that Biogen Idec had breached the Collaboration Agreement. Genentech also asserted for the first time that the November 2003 transaction in which Idec acquired Biogen and became Biogen Idec was a change of control of our company under the Collaboration Agreement, a position with which we disagree strongly. It is our position that the Biogen Idec merger did not constitute a change of control under the Collaboration Agreement and that, even if it did, Genentech's rights under the change of control provision, which must be asserted within ninety (90) days of the change of control event, have long since expired. We intend to vigorously assert that position if Genentech persists in making this claim. On December 5, 2006, Biogen Idec filed an Amended Demand for Arbitration with the AAA to make clear that the parties' dispute also includes a disagreement over Genentech's unilateral development of another collaboration product a third generation anti-CD20 molecule to treat certain oncology indications. A three-member arbitration panel has been selected to decide this matter. The arbitration is in an early stage and we cannot make a determination as to the likely outcome.

On August 10, 2004, Classen Immunotherapies, Inc. filed suit against us, GlaxoSmithKline, Chiron Corporation, Merck & Co., Inc., and Kaiser-Permanente, Inc. in the U.S. District Court for the District of Maryland contending that we induced infringement of U.S. Patent Nos, 6,420,139, 6,638,739, 5,728,383, and 5,723,283, all of which are directed to various methods of immunization or determination of immunization schedules. All Counts asserted against us by Classen were dismissed by the Court upon various motions filed by the Parties. In early December 2006, Classen filed its initial appeal brief with the United States Court of Appeals for the Federal Circuit.



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In that brief, Classen argues for the first time that Biogen Idec has no reporting duties and no activities related to FDA reporting regarding Hepatitis B vaccines and hence can have no claim to a safe harbor protection under Section 271(e)1. Classen asserts, however, that we are inducing infringement by having users consider risk prior to choosing an immunization schedule. On March 7, 2007, we filed our brief in response. We argued that Classen has waived this argument by not raising it in the District Court and, moreover, that the argument lacks merit because Biogen Idec cannot induce infringement if there has been no actual infringement. The Court of Appeals has scheduled oral argument for August 8, 2007. We are unable to predict the outcome of this appeal.

On January, 30, 2007, the Estate of Thaddeus Leoniak commenced a civil lawsuit in the Court of Common Pleas, Philadelphia County, Pennsylvania, against Biogen Idec, the Fox Chase Cancer Center and three physicians. The Complaint alleges that Thaddeus Leoniak died as a result of taking the drug ZEVALIN, and seeks to hold Biogen Idec strictly liable for placing an allegedly unreasonably dangerous product in the stream of commerce without proper warnings. The Complaint also seeks to hold the Company liable for alleged negligence in the design, manufacture, advertising, marketing, promoting, distributing, supplying and selling of ZEVALIN. The lawsuit seeks damages for pecuniary losses suffered by the decedent's survivors and for compensatory damages for decedent's pain and suffering, loss of earnings and deprivation of normal activities, all in an amount in excess of \$50,000. On January 31, 2007, the Plaintiff's counsel demanded \$7.0 million to settle the lawsuit. Biogen Idec has not formed an opinion that an unfavorable outcome is either probable or remote and does not express an opinion at this time as to the likely outcome of the matter or as to the magnitude or range of any potential loss. The Company believes that it has good and valid defenses to the Complaint and intends to vigorously defend the case.

**13. Segment Information**

We operate in one business segment, which is the business of development, manufacturing and commercialization of novel therapeutics for human health care. Our chief operating decision-maker manages our operations as a single operating segment.

**14. Indebtedness**

Notes payable consists of the following (in millions):

|   | <b>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|--------------------------|------------------------------|
| Current portion:  |                          |                              |
| 20-year subordinated convertible promissory notes, due 2019 at 5.5% | \$ 2.6                   | \$                           |
| Note payable to Fumedica  | 9.3                      |                              |
|   | \$ 11.9                  | \$                           |
| Non-current portion:  |                          |                              |
| 30-year senior convertible promissory notes, due 2032 at 1.75%      | \$                       | \$ 6.5                       |
| 20-year subordinated convertible promissory notes, due 2019 at 5.5% |                          | 39.1                         |
| Credit line from Dompé  | 12.2                     | 11.9                         |
| Note payable to Fumedica  | 31.0                     | 39.2                         |

|                |    |      |         |
|----------------|----|------|---------|
| Line of credit |    | 8.1  |         |
|                | \$ | 51.3 | \$ 96.7 |

In January 2007, we issued from treasury stock 2.8 million shares of common stock for \$70.5 million in face value and \$36.6 million in carrying value of our 2019 subordinated notes that the holders had elected to convert into our common stock.

In May 2007, we paid \$6.6 million to note holders of the 2032 senior notes that had exercised their right to put the senior notes back to us. These senior notes had a face value of \$10.1 million.

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In June 2007, in connection with the tender offer described in Note 16 Tender Offer, we entered into a \$1,500 million term loan facility. The term loan facility has a term of 364 days and bears interest of LIBOR plus 45 basis points, which was 5.77% at June 30, 2007. As of June 30, 2007 we had no borrowings under this facility. On July 2, 2007, in connection with the funding of the tender offer, we borrowed the full \$1,500 million under this facility. We expect to repay this term loan facility in 2007 with proceeds from a long-term financing agreement.

In June 2007, we also entered into a five year \$400 million Senior Unsecured Revolving Credit Facility, which we may use for future working capital and general corporate purposes. This credit facility bears interest at a rate of LIBOR plus 45 basis points, which was 5.77% at June 30, 2007. As of June 30, 2007, we had not borrowed any funds against this credit facility.

**15. New Accounting Pronouncements**

On February 15, 2007, FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*, or SFAS 159, was issued. This Statement permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements. This Statement is effective January 1, 2008 for the company. We are currently evaluating the impact, if any, this standard will have on our financial statements.

On September 6, 2006, FASB Statement No. 157 *Fair Value Measurement*, or SFAS 157, was issued. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, or GAAP, and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements. This Statement does not require any new fair value measurements. The Statement is effective January 1, 2008 for the company. We are currently evaluating the impact, if any, this standard will have on our financial statements.

**16. Tender Offer**

On May 30, 2007, we commenced a modified Dutch Auction tender offer to purchase up to 56,603,773 shares of our outstanding stock at a price between \$47.00 and \$53.00 per share, for an aggregate purchase price of up to \$3,000.0 million. On June 27, 2007, we accepted for payment an aggregate of 56,424,155 shares of our common stock at a price of \$53.00 per share. As the obligation of \$2,990.5 million was incurred on June 27, 2007 and funded on July 2, 2007, pursuant to SFAS 150, we recorded the present value of the obligation of \$2,988.2 million on June 27, 2007, and the \$2.3 million difference between the present value of the obligation and funded amount will be recognized as interest expense through July 2, 2007. The amount recorded as tender offer obligation within the shareholder's equity section of the accompanying balance sheet is the \$2,988.2 million present value of the obligation as of June 27, 2007, as well as costs and fees incurred to effect the tender offer. As of June 30, 2007, the obligation to settle the tender offer of \$2,990.0 million is recorded as a current liability in the accompanying balance sheet. On July 2, 2007, we funded the tender offer through existing cash and cash equivalents of approximately \$1,490 million and approximately \$1,500 million in funding by our term loan facility as described in Note 14, Indebtedness.

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

**Forward-Looking Information**

In addition to historical information, this report contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. You can identify these forward-looking statements by their use of words such as anticipate, believe, estimate, expect, forecast, intend, plan, project, target, will and other words and terms of similar meaning. You can identify them by the fact that they do not relate strictly to historical or current facts. Reference is made in particular to forward-looking statements regarding the anticipated level of future product sales, royalty revenues, expenses and profits, regulatory approvals, our long-term growth, the development and marketing of additional products, the impact of competitive products, the anticipated outcome of pending or anticipated litigation and patent-related proceedings, our ability to meet our manufacturing needs, the value of investments in certain marketable securities, and our plans to spend additional capital on external business development and research opportunities. Risk factors which could cause actual results to differ from our expectations and which could negatively impact our financial condition and results of operations are discussed in the section entitled "Risk Factors" in Part II of this report and elsewhere in this report. Unless required by law, we do not undertake any obligation to publicly update any forward-looking statements.

The following discussion should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Report on Form 10-Q, beginning on page 3.

**Overview**

Biogen Idec Inc. is an international biotechnology company that creates new standards of care in oncology, neurology, immunology and other speciality areas of unmet medical need.

We currently have five products:

AVONEX® (interferon beta-1a);

RITUXAN® (rituximab);

TYSABRI® (natalizumab);

FUMADERM® (dimethylfumarate and monoethylfumarate salts); and,

ZEVALIN® (ibritumomab tiuxetan). During the third quarter of 2006, we began executing a plan to divest our ZEVALIN product line.

Additionally, through April 2006, we recorded product revenues from sales of AMEVIVE® (alefacept). In April 2006, we sold the worldwide rights to this product to Astellas Pharma US, Inc., or Astellas. We will continue to manufacture and supply this product to Astellas for a period of up to 11 years.

**Executive Overview**

Results for the first six months of 2007 included total revenue of \$1,489.1 million, net income of \$317.6 million and diluted net income per share of \$0.92. These results reflect an increase in revenue primarily attributable to the impact of price increases as well as the re-launch of TYSABRI in July 2006. The effect of the increase in revenue was partially offset by an increase in research and development expense due to new clinical trials and other projects, and an increase in selling general and administrative expense related to increased headcount to support the re-launch of TYSABRI and AVONEX sales.

In June 2007 we completed a tender offer in which we purchased 56,424,155 shares of our common stock for an aggregate purchase price of approximately \$2,990 million. We funded the transaction in July 2007 through the liquidation of approximately \$1,490 million of cash and marketable securities and obtaining a term loan for approximately \$1,500 million.

In January 2007, we completed the acquisition of 100% of the stock of Syntonix Pharmaceuticals, Inc. for total initial consideration of \$44.4 million and contingent payments of up to \$124.4 million if certain milestones are

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achieved. The financial statement impact resulting from the purchase included recognition of a charge for acquired in-process research and development, or IPR&D, of approximately \$18.4 million.

**Results of Operations****Revenues (in millions)**

|                               | <b>Three Months Ended June 30,</b> |       |             |        | <b>Six Months Ended June 30,</b> |       |             |       |
|-------------------------------|------------------------------------|-------|-------------|--------|----------------------------------|-------|-------------|-------|
|                               | <b>2007</b>                        |       | <b>2006</b> |        | <b>2007</b>                      |       | <b>2006</b> |       |
| Product sales                 |                                    |       |             |        |                                  |       |             |       |
| United States                 | \$ 295.2                           | 38.2% | \$ 265.8    | 40.3%  | \$ 586.4                         | 39.4% | \$ 505.9    | 39.8% |
| Rest of world                 | 223.4                              | 28.9% | 170.3       | 25.8%  | 416.6                            | 28.0% | 336.7       | 26.5% |
| Total product sales           | 518.6                              | 67.1% | 436.1       | 66.1%  | 1,003.0                          | 67.4% | 842.6       | 66.3% |
| Unconsolidated joint business | 230.6                              | 29.8% | 206.1       | 31.2%  | 437.8                            | 29.4% | 389.5       | 30.6% |
| Royalties                     | 22.6                               | 2.9%  | 18.2        | 2.8%   | 45.6                             | 3.1%  | 38.8        | 3.1%  |
| Corporate partner             | 1.4                                | 0.2%  | (0.4)       | (0.1)% | 2.7                              | 0.1%  | 0.3         | 0.0%  |
| Total revenues                | \$ 773.2                           | 100%  | \$ 660.0    | 100%   | \$ 1,489.1                       | 100%  | \$ 1,271.2  | 100%  |

**Product Revenues (in millions)**

|                        | <b>Three Months Ended June 30,</b> |       |             |       | <b>Six Months Ended June 30,</b> |       |             |       |
|------------------------|------------------------------------|-------|-------------|-------|----------------------------------|-------|-------------|-------|
|                        | <b>2007</b>                        |       | <b>2006</b> |       | <b>2007</b>                      |       | <b>2006</b> |       |
| AVONEX                 | \$ 461.6                           | 89.0% | \$ 429.4    | 98.4% | \$ 910.4                         | 90.8% | \$ 822.8    | 97.7% |
| TYSABRI                | 47.5                               | 9.2%  | (0.2)       | 0.0%  | 77.3                             | 7.7%  | (0.4)       | 0.0%  |
| AMEVIVE                |                                    | %     | 2.5         | 0.6%  | 0.2                              | 0.0%  | 10.7        | 1.2%  |
| ZEVALIN                | 4.3                                | 0.8%  | 4.4         | 1.0%  | 9.9                              | 1.0%  | 9.5         | 1.1%  |
| FUMADERM               | 5.2                                | 1.0%  |             | %     | 5.2                              | 0.5%  |             | %     |
| Total product revenues | \$ 518.6                           | 100%  | \$ 436.1    | 100%  | \$ 1,003.0                       | 100%  | \$ 842.6    | 100%  |

**Cost of Sales, excluding Amortization of Intangibles (in millions)**

|                          | <b>Three Months Ended June 30,</b> |       |             |       | <b>Six Months Ended June 30,</b> |       |             |       |
|--------------------------|------------------------------------|-------|-------------|-------|----------------------------------|-------|-------------|-------|
|                          | <b>2007</b>                        |       | <b>2006</b> |       | <b>2007</b>                      |       | <b>2006</b> |       |
| Cost of product revenues | \$ 83.2                            | 98.9% | \$ 77.1     | 98.8% | \$ 164.0                         | 98.8% | \$ 143.5    | 98.6% |
| Cost of royalty revenues | 0.9                                | 1.1%  | 0.9         | 1.2%  | 2.0                              | 1.2%  | 2.0         | 1.4%  |

|  |         |      |         |      |          |      |          |      |
|--|---------|------|---------|------|----------|------|----------|------|
| Cost of sales, excluding<br>amortization of<br>intangibles | \$ 84.1 | 100% | \$ 78.0 | 100% | \$ 166.0 | 100% | \$ 145.5 | 100% |
|--|---------|------|---------|------|----------|------|----------|------|

During the three and six months ended June 30, 2007, we wrote-down \$8.1 million and \$14.8 million, respectively, in unmarketable inventory, which was charged to cost of sales. During the three and six months ended June 30, 2006, we wrote-down \$8.8 million and \$12.0 million, respectively, in unmarketable inventory, which was also charged to cost of sales.

**Table of Contents****AVONEX**

Revenues from AVONEX in the three and six months ended June 30, 2007 and 2006 were as follows (in millions):

|                       | <b>Three Months Ended June 30,</b> |       |             |       | <b>Six Months Ended June 30,</b> |       |             |       |
|-----------------------|------------------------------------|-------|-------------|-------|----------------------------------|-------|-------------|-------|
|                       | <b>2007</b>                        |       | <b>2006</b> |       | <b>2007</b>                      |       | <b>2006</b> |       |
| AVONEX                |                                    |       |             |       |                                  |       |             |       |
| U.S.                  | \$ 269.6                           | 58.4% | \$ 260.6    | 60.7% | \$ 539.6                         | 59.3% | \$ 492.7    | 59.9% |
| Rest of World         | 192.0                              | 41.6% | 168.8       | 39.3% | 370.8                            | 40.7% | 330.1       | 40.1% |
| Total AVONEX revenues | \$ 461.6                           | 100%  | \$ 429.4    | 100%  | \$ 910.4                         | 100%  | \$ 822.8    | 100%  |

In the three months ended June 30, 2007, compared to the three months ended June 30, 2006, U.S. sales of AVONEX increased \$9.0 million, or 3.5%, principally due to the impact of price increases. In the six months ended June 30, 2007, compared to the six months ended June 30, 2006, U.S. sales of AVONEX increased \$46.9 million, or 9.5%, principally due to the impact of price increases.

In the three months ended June 30, 2007, compared to the three months ended June 30, 2006, international sales of AVONEX increased \$23.2 million, or 13.7%, due to the impact of higher volume and exchange rates. In the six months ended June 30, 2007, compared to the six months ended June 30, 2006, international sales of AVONEX increased \$40.7 million, or 12.3%, principally due to the impact of exchange rates and higher volume.

We expect to face increasing competition in the MS marketplace in and outside the U.S. from existing and new MS treatments, including TYSABRI, which may impact sales of AVONEX. We expect future sales of AVONEX to be dependent, to a large extent, on our ability to compete successfully with the products of our competitors.

**TYSABRI**

Revenues from TYSABRI for the three and six months ended June 30, 2007 and 2006 were as follows (in millions):

|                        | <b>Three Months Ended June 30,</b> |       |             |      | <b>Six Months Ended June 30,</b> |       |             |      |
|------------------------|------------------------------------|-------|-------------|------|----------------------------------|-------|-------------|------|
|                        | <b>2007</b>                        |       | <b>2006</b> |      | <b>2007</b>                      |       | <b>2006</b> |      |
| TYSABRI                |                                    |       |             |      |                                  |       |             |      |
| U.S.                   | \$ 22.3                            | 46.9% | \$ (0.2)    | 100% | \$ 39.4                          | 51.0% | \$ (0.4)    | 100% |
| Rest of World          | 25.2                               | 53.1% |             | 0.0% | 37.9                             | 49.0% |             | 0.0% |
| Total TYSABRI revenues | \$ 47.5                            | 100%  | \$ (0.2)    | 100% | \$ 77.3                          | 100%  | \$ (0.4)    | 100% |

In July 2006, we began to ship TYSABRI in both the U.S. and Europe in connection with the re-launch.

In the three and six months ended June 30, 2006, no sales were made but certain amounts were recognized related to the amortization of intangible assets, giving rise to negative revenue of \$196,000 and \$393,000, respectively.



We have product on hand that was previously written off due to uncertainties surrounding the TYSABRI suspension in 2005, but is available to fill future orders. As of June 30, 2007, the approximate value of this product, based on its original cost of manufacture, is \$13.8 million. We expect this product to be utilized in 2007. For the three and six months ended June 30, 2007, \$3.2 million and \$5.7 million of this product, respectively, was used to fulfill orders.

***ZEVALIN***

In the three months ended June 30, 2007, compared to the three months ended June 30, 2006, sales of ZEVALIN decreased 2.3%, due to lower domestic sales offset by higher international sales. In the six months ended June 30, 2007, compared to the six months ended June 30, 2006, sales of ZEVALIN increased 4.2%, due to higher

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international sales offset by lower domestic sales. We expect future domestic sales of ZEVALIN to decline due to decreased commercial effort as a result of our planned divestiture of this product line.

***FUMADERM***

In connection with our June 2006 acquisition of Fumapharm, we began recognizing revenue on sales of FUMADERM to our distributor, Fumedica, in July 2006. In December 2006, we acquired the right to distribute FUMADERM in Germany from Fumedica effective May 1, 2007. In connection with the acquisition of the FUMADERM distribution rights in Germany, we committed to the repurchase of any inventory Fumedica did not sell by May 1, 2007. As a result of this provision, we deferred the recognition of revenue on shipments made to Fumedica through April 30, 2007. We began recognizing revenue on sales of FUMADERM into the German market in May 2007 and, in the three months ended June 30, 2007, we recognized \$5.2 million of sales of FUMADERM.

**Unconsolidated Joint Business Revenue**

Revenues from unconsolidated joint business, which consist of our share of pre-tax copromotion profits generated from our copromotion agreement with Genentech and reimbursement by Genentech of our Rituxan related expenses as well as royalty revenue, consist of the following (in millions):

|  | <b>Three Months<br/>Ended June 30,</b> |             | <b>Six Months<br/>Ended June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Copromotion profits                                  | \$ 153.5                               | \$ 143.0    | \$ 290.0                             | \$ 267.1    |
| Reimbursement of selling and development expenses    | 15.0                                   | 16.0        | 29.1                                 | 31.9        |
| Royalty revenue on sales of RITUXAN outside the U.S. | 62.1                                   | 47.1        | 118.7                                | 90.5        |
|  | \$ 230.6                               | \$ 206.1    | \$ 437.8                             | \$ 389.5    |

Copromotion profits consist of the following (in millions):

|  | <b>Three Months<br/>Ended June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2007</b>                            | <b>2006</b> | <b>2007</b>                          | <b>2006</b> |
| Product revenues, net                      | \$ 581.9                               | \$ 525.4    | \$ 1,116.8                           | \$ 1,002.3  |
| Costs and expenses                         | 198.3                                  | 167.9       | 379.3                                | 322.2       |
| Copromotion profits                        | \$ 383.6                               | \$ 357.5    | \$ 737.5                             | \$ 680.1    |
| Biogen Idec's share of copromotion profits | \$ 153.5                               | \$ 143.0    | \$ 290.0                             | \$ 267.1    |

For the three months ended June 30, 2007, compared to the three months ended June 30, 2006, our share of copromotion profits increased \$10.5 million, or 7.3%, due, principally, to price increases, as well as higher sales of RITUXAN, as a result of the approval of RITUXAN for treatment of rheumatoid arthritis, or RA, in February 2006.

For the six months ended June 30, 2007, compared to the six months ended June 30, 2006, our share of copromotion profits increased \$22.9 million, or 8.6%, due, principally, to price increases, as well as higher sales of RITUXAN, as a result of the approval of RITUXAN for treatment of rheumatoid arthritis, or RA, in February 2006.

Our royalty revenue on sales of RITUXAN outside the U.S. is based on Roche's and Zenyaku's net sales to third-party customers and is recorded on a cash basis.

For the three months ended June 30, 2007, compared to the three months ended June 30, 2006, royalty revenue on sales of RITUXAN outside the U.S. increased \$15.0 million, or 31.8%, due, principally to increased sales outside the U.S., reflecting greater market penetration. For the six months ended June 30, 2007, compared to the six months ended June 30, 2006, royalty revenue on sales of RITUXAN outside the U.S. increased \$28.2 million, or 31.2%, due, principally to increased sales outside the U.S. reflecting greater market penetration.

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Under the amended and restated collaboration agreement, our current pretax copromotion profit-sharing formula, which resets annually, is as follows:

| <b>Copromotion Operating Profits</b> | <b>Biogen Idec's Share of Copromotion Profits</b> |
|--------------------------------------|---|
| First \$50 million                   | 30%   |
| Greater than \$50 million            | 40%   |

In 2007 and 2006, the 40% threshold was met during the first quarter. For each calendar year or portion thereof following the approval date of the first new anti-CD20 product, the pretax copromotion profit-sharing formula for RITUXAN and other anti-CD20 products sold by us and Genentech will change to the following:

| <b>Copromotion Operating Profits</b> | <b>New Anti-CD20 U.S.<br/>Gross Product Sales</b>  | <b>Biogen Idec's Share<br/>of Copromotion<br/>Profits</b> |
|--------------------------------------|--|---|
| First \$50 million(1)                | N/A  | 30%   |
| Greater than \$50 million            | Until such sales exceed \$150 million in<br>any calendar year(2)<br>Or<br>After such sales exceed \$150 million in<br>any calendar year until such sales exceed<br>\$350 million in any calendar year(3)<br>Or<br>After such sales exceed \$350 million in<br>any calendar year(4) | 38%<br><br>35%<br><br>30%                                 |

- (1) not applicable in the calendar year the first new anti-CD20 product is approved if \$50 million in copromotion operating profits has already been achieved in such calendar year through sales of RITUXAN.
- (2) if we are recording our share of RITUXAN copromotion profits at 40%, upon the approval date of the first new anti-CD20 product, our share of copromotion profits for RITUXAN and the new anti-CD20 product will be immediately reduced to 38% following the approval date of the first new anti-CD20 product until the \$150 million new product sales level is achieved.
- (3) if \$150 million in new product sales is achieved in the same calendar year the first new anti-CD20 product receives approval, then the 35% copromotion profit-sharing rate will not be effective until January 1 of the following calendar year. Once the \$150 million new product sales level is achieved then our share of copromotion profits for the balance of the year and all subsequent years (after the first \$50 million in copromotion operating profits in such years) will be 35% until the \$350 million new product sales level is achieved.
- (4) if \$350 million in new product sales is achieved in the same calendar year that \$150 million in new product sales is achieved, then the 30% copromotion profit-sharing rate will not be effective until January 1 of the following calendar year (or January 1 of the second following calendar year if the first new anti-CD20 product receives

approval and, in the same calendar year, the \$150 million and \$350 million new product sales levels are achieved). Once the \$350 million new product sales level is achieved then our share of copromotion profits for the balance of the year and all subsequent years will be 30%.

Currently, we record our share of expenses incurred for the development of new anti-CD20 products in research and development expense until such time as a new product is approved, at which time we will record our share of pretax copromotion profits related to the new product in revenues from unconsolidated joint business. We record our royalty revenue on sales of RITUXAN outside the U.S. on a cash basis.

Under the amended and restated collaboration agreement, we will receive a lower royalty percentage of revenue from Genentech on sales by Roche and Zenyaku of new anti-CD20 products, as compared to the royalty percentage of revenue on sales of RITUXAN. The royalty period with respect to all products is 11 years from the first commercial sale of such product on a country-by-country basis. For the majority of European countries, the first commercial sale of RITUXAN occurred in the second half of 1998.

**Table of Contents****Other Revenue**

Other revenue for the three and six months ended June 30, 2007 and 2006 was as follows (in millions):

|                   | Three Months Ended<br>June 30, |       |         |        | Six Months Ended<br>June 30, |       |         |       |
|-------------------|--------------------------------|-------|---------|--------|------------------------------|-------|---------|-------|
|                   | 2007                           |       | 2006    |        | 2007                         |       | 2006    |       |
| Royalties         | \$ 22.6                        | 94.2% | \$ 18.2 | 102.2% | \$ 45.6                      | 94.4% | \$ 38.8 | 99.2% |
| Corporate partner | 1.4                            | 5.8%  | (0.4)   | (2.2)% | 2.7                          | 5.6%  | 0.3     | 0.8%  |
| Other revenue     | \$ 24.0                        | 100%  | \$ 17.8 | 100%   | \$ 48.3                      | 100%  | \$ 39.1 | 100%  |

In the three months ended June 30, 2007, compared to the three months ended June 30, 2006, royalties increased \$4.4 million, or 24.2%, due, principally, to higher royalties on sales of product licensed by The Medicines Company. In the six months ended June 30, 2007, compared to the six months ended June 30, 2006, royalties increased \$6.8 million, or 17.5%, due, principally, to higher royalties on sales of product licensed by The Medicines Company.

Royalty revenues may fluctuate as a result of sales levels of products sold by our licensees from quarter to quarter due to the timing and extent of major events such as new indication approvals, government-sponsored programs, or loss of patent protection.

Corporate partner revenues consist of contract revenues and license fees.

**Research and Development Expenses**

Research and development expenses totaled \$218.1 million and \$162.0 million in the three months ended June 30, 2007 and 2006, respectively, an increase of \$56.1 million, or 34.6%. The increase reflects, principally, a \$31.3 million increase in clinical trial activity (notably BG-12, Adentri, Anti-CD80, and TYSABRI), a \$16.0 million increase due to increased manufacturing of molecules for clinical supply (notably Anti-CD23 and IGF-1R), and \$4.7 million of research and development costs related to Syntonix.

Research and development expenses totaled \$409.6 million and \$307.9 million in the six months ended June 30, 2007 and 2006, respectively, an increase of \$101.7 million, or 33.0%. The increase reflects, principally, a \$56.6 million increase in clinical trial activity (notably BG-12, Anti-CD23, Anti-CD80, HSP90, and LTBR), a \$29.5 million increase due to increased manufacturing of molecules for clinical supply (notably Anti-CD23 and IGF-1R), and \$7.3 million of research and development costs related to Syntonix.

We anticipate that research and development expenses in 2007 will continue to be higher than 2006.

**Acquired In-Process Research and Development, or IPR&D**

In the six months ended June 30, 2007, we recorded an acquired IPR&D charge of \$18.4 million related to the acquisition of Syntonix. See Note 4 of the consolidated financial statements, Acquisitions and Collaborations, for details on future expenditures with respect to the IPR&D. Research and development expenditures related to in-process research and development projects acquired in the prior year are \$18.0 million for Fumapharm and \$11.6 million for Conforma. In the six months ended June 30, 2006, we recorded \$330.5 million of IPR&D related to

the acquisitions of Fumapharm and Conforma.

Since completing the acquisition in January of 2007, we have spent approximately \$7.4 million related to the in-process technology of Syntonix. Those expenses are included in research and development expenses in the accompanying consolidated statement of income.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses totaled \$203.7 million and \$170.3 million in the three months ended June 30, 2007 and 2006, respectively, an increase of \$33.4 million, or 19.6%. The increase reflects, principally, a \$14.5 million increase in sales and marketing activities for TYSABRI, primarily in international sales

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and marketing, a \$9.0 million increase in salaries and benefits related to increased headcount in general and administrative personnel, and a \$9.1 million increase in fees and services related to general and administrative costs.

Selling, general and administrative expenses totaled \$391.7 million and \$324.7 million in the six months ended June 30, 2007 and 2006, respectively, an increase of \$67.0 million, or 20.6%. The increase reflects, principally, a \$34.6 million increase in sales and marketing activities for TYSABRI, primarily in international sales and marketing, a \$14.1 million increase in salaries and benefits related to increased headcount in general and administrative personnel, and a \$13.5 million increase in fees and services related to general and administrative costs. These increases were offset by a \$4.9 million decrease in sales and marketing activities related to ZEVALIN.

We anticipate that total selling, general, and administrative expenses in 2007 will continue to be higher than 2006 due to sales and marketing and other general and administrative expenses to support AVONEX and TYSABRI growth.

**Amortization of Intangible Assets**

Amortization of intangible assets totaled \$61.0 million for the three months ended June 30, 2007 compared to \$76.3 million in the comparable period in 2006, a decrease of \$15.3 million, or 20.1%. Amortization of intangible assets totaled \$120.9 million for the six months ended June 30, 2007 compared to \$147.0 million in the comparable period in 2006, a decrease of \$26.1 million, or 17.8%. The decrease is due, principally, to a change in estimate in the calculation of economic consumption for core technology that occurred as part of our annual reassessment of amortization expense in the third quarter of 2006.

**Income Tax Provision*****Tax Rate***

Our effective tax rate was 21.8% on pre-tax income for the three months ended June 30, 2007, compared to (70.3)% for the comparable period in 2006. Our effective tax rate was 28.0% on pre-tax income for the six months ended June 30, 2007, compared to 156.2% for the comparable period in 2006. The change in the effective tax rate for the three and six months ended June 30, 2007, is primarily attributable to the prior year non deductible acquisition related IPR&D.

**Liquidity and Capital Resources*****Financial Condition***

Our financial condition is summarized as follows (in millions):

|  | <b>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--|--------------------------|------------------------------|
| Cash and cash equivalents                              | \$ 1,611.6               | \$ 661.4                     |
| Marketable securities short term                       | 191.1                    | 241.3                        |
| Marketable securities long term                        | 917.4                    | 1,412.2                      |
| Total cash, cash equivalents and marketable securities | \$ 2,720.1               | \$ 2,314.9                   |
| Working capital  | \$ (770.9)               | \$ 1,129.7                   |



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|                        |                   |    |      |    |      |
|------------------------|-------------------|----|------|----|------|
| Outstanding borrowings | convertible notes | \$ | 2.6  | \$ | 45.6 |
| Outstanding borrowings | other             | \$ | 60.6 | \$ | 51.1 |

Until required for use in the business, we invest our cash reserves in bank deposits, certificates of deposit, commercial paper, corporate notes, foreign and U.S. government instruments and other readily marketable debt instruments in accordance with our investment policy.

We have financed our operating and capital expenditures principally through cash flows from our operations. We financed the tender offer through the use of debt and existing cash. We expect to finance our current and planned operating requirements principally through cash from operations, as well as existing cash resources. We believe that these funds will be sufficient to meet our operating requirements for the foreseeable future. However, we may, from

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time to time, seek additional funding through a combination of new collaborative agreements, strategic alliances and additional equity and debt financings or from other sources. Our working capital and capital requirements will depend upon numerous factors, including:

the continued commercial success of AVONEX and RITUXAN;

the commercial success of TYSABRI;

the timing and expense of obtaining regulatory approvals for products in development;

the cost of launching new products, and the success of those products;

funding and timing of payments related to several significant capital projects;

the progress of our preclinical and clinical testing;

fluctuating or increasing manufacturing requirements and research and development programs;

levels of resources that we need to devote to the development of manufacturing, sales and marketing capabilities, including resources devoted to the marketing of AVONEX, RITUXAN, FUMADERM, TYSABRI and future products;

technological advances;

status of products being developed by competitors;

our ability to establish collaborative arrangements with other organizations;

and working capital required to satisfy the options of holders of our senior notes and subordinated notes who may require us to repurchase their notes on specified terms or upon the occurrence of specified events.

We intend to commit significant additional capital to external research and development opportunities. To date, we have financed our external growth initiatives through existing cash resources. We expect to finance our future growth initiative requirements either through existing cash resources or a combination of existing cash resources and debt financings.

***Operating activities***

Cash provided by operations was \$464.3 million and \$339.6 million in the six months ended June 30, 2007 and 2006, respectively, an increase of \$124.7 million, or 36.7%. The increase is due to higher earnings and a lower investment in working capital. Specifically, cash used to finance movements in working capital asset and liability accounts gave rise to a use of funds in the current period of approximately \$99.2 million versus a use of funds of \$134.4 million in the prior year. The current year includes an increase in net income of approximately \$365.3 million as well as a decrease in non-cash charges. The principal component of non-cash charges for the six months ended June 30, 2007 and 2006 was acquired in-process research and development of \$18.4 million and \$330.5 million, respectively. Additionally, deferred income taxes represented a use of funds of \$18.2 million during the six months ended June 30, 2007 versus a use of funds of \$46.1 million in 2006. These increases were offset by a decrease in non-cash charges relating to depreciation and amortization which declined by \$17.6 million to \$181.3 million for the six months ended June 30, 2007 from \$198.9 million for the six months ended June 30, 2006.

*Investing activities*

Cash provided by investing activities was \$396.7 million compared to cash used in investing activities of \$657.6 million in the six months ended June 30, 2007 and 2006, respectively. The increase in cash provided by investing activities reflects the sale of marketable securities to fund the tender offer described in Note 16, Tender Offer. Purchases of plant, property, and equipment totaled \$117.2 million in the six months ended June 30, 2007 as compared to \$79.7 million in the six months ended June 30, 2006. Payments made for acquisitions were \$42.3 million in 2007 and \$363.3 million in 2006.

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### ***Financing activities***

Cash provided by financing activities in the six months ended June 30, 2007 was \$88.8 million compared to cash provided of \$94.3 million in the six months ended June 30, 2006. The decrease was due, principally, to the repurchase of senior notes and lower proceeds from loans offset by an increase in proceeds from the issuance of stock for share based payment arrangements.

### ***Borrowings***

As of June 30, 2007, our remaining indebtedness under our subordinated notes was approximately \$2.6 million with a face value of \$4.9 million. On May 1, 2007, we paid \$6.6 million to note holders of the 2032 senior notes that had exercised their right to put the notes back to us. These notes had a face value of \$10.1 million.

At June 30, 2007 we have a note payable of approximately \$40.3 million relating to the acquisition of distribution rights of FUMADERM. Additionally, one of our international joint ventures maintained a loan that had a carrying value of \$12.2 million as of June 30, 2007 and a line of credit with an outstanding balance of \$8.1 million. See Note 14, *Indebtedness*, for a description of a line of credit and term loan agreement entered into in June 2007.

### ***Tender Offer***

On May 30, 2007, we commenced a modified Dutch Auction tender offer to purchase up to 56,603,773 shares of our outstanding stock at a price between \$47.00 and \$53.00 per share, for an aggregate purchase price of up to \$3,000.0 million. On June 27, 2007, we accepted for payment an aggregate of 56,424,155 shares of our common stock at a price of \$53.00 per share. As the obligation of \$2,990.5 million was incurred on June 27, 2007 and funded on July 2, 2007, pursuant to SFAS 150, we recorded the present value of the obligation of \$2,988.2 million on June 27, 2007, and the \$2.3 million difference between the present value of the obligation and funded amount will be recognized as interest expense through July 2, 2007. The amount recorded as tender offer obligation within the shareholder's equity section of the accompanying balance sheet is the \$2,988.2 million present value of the obligation as of June 27, 2007, as well as costs and fees incurred to effect the tender offer. As of June 30, 2007, the obligation to settle the tender offer of \$2,990.0 million is recorded as a current liability in the accompanying balance sheet. On July 2, 2007, we funded the tender offer through existing cash and cash equivalents of approximately \$1,490 million and approximately \$1,500 million in funding by our term loan facility as described in Note 14, *Indebtedness*.

### ***Working capital***

At June 30, 2007, our working capital was \$(770.9) million, as compared to \$1,129.7 million at December 31, 2006, a decrease of \$1,900.6 million. This reflects the classification of the \$2,990.0 million tender offer obligation as a current liability. We expect to repay the \$1,500.0 million term loan used to partially satisfy this obligation with proceeds from the issuance of long term debt.

### ***Commitments***

In August 2004, we restarted construction of our large-scale biologic manufacturing facility in Hillerod, Denmark. In March 2005, after our voluntary suspension of TYSABRI, we reconsidered our construction plans and determined that we would proceed with the bulk-manufacturing component of our large-scale biologic manufacturing facility in Hillerod, Denmark. Additionally, we added a labeling and packaging component to the project. We also determined that we would no longer proceed with the fill-finish component of that facility. As of June 30, 2007, we had committed approximately \$278.0 million to the project, of which approximately \$275.9 million had been paid.

We are proceeding with the second phase of the project, a large-scale bulk manufacturing facility. In October 2006, our Board of Directors approved this phase of the project, which is expected to cost an additional \$225.0 million. As of June 30, 2007, we had committed approximately \$188.7 million to the second phase, of which approximately \$33.7 million had been paid.

The second phase of the project is expected to be ready for commercial production in 2009.

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The timing of the completion and anticipated licensing of the bulk manufacturing facility is in part dependent upon market acceptance of TYSABRI. See **Risk Factors** Our near-term success depends on the market acceptance and successful launch of our third product TYSABRI. Now that TYSABRI has been approved we are in the process of evaluating our requirements for TYSABRI inventory and additional manufacturing capacity in light of the approved label and our judgment of the potential market acceptance of TYSABRI in MS, and the probability of obtaining marketing approval of TYSABRI in additional indications in the U.S., EU and other jurisdictions.

In June 2007, we entered into an agreement with Cardiokine, Inc., a privately-held pharmaceutical company, for the joint development of lixivapatan, an oral compound expected to enter a Phase III clinical trial in the second half of 2007 for the potential treatment of hyponatremia in patients with congestive heart failure. Under the terms of the agreement, we will pay a \$50.0 million upfront payment expected to be paid in the third quarter 2007, and up to \$170.0 million in additional milestone payments for successful development and global commercialization of lixivapatan, as well as royalties for commercial sales.

### ***Share Repurchase Program***

We did not repurchase any shares of our common stock under our authorized share repurchase program in the three and six months ended June 30, 2007. Please see Note 16, **Tender Offer**, for a description of our share repurchase completed in July.

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

We do not have any significant relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

### **Legal Matters**

Refer to Note 12 of the consolidated financial statements in Part I of this report on Form 10-Q, **Litigation**, for a discussion of legal matters as of June 30, 2007.

### **New Accounting Standards**

Refer to Note 15 of the consolidated financial statements in Part I of this report on Form 10-Q, **New Accounting Pronouncements**, for a discussion of new accounting standards.

### **Critical Accounting Estimates**

The discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its critical estimates and judgments, including, among others, those related to revenue recognition, investments, purchase accounting, goodwill impairment, income taxes, and stock-based compensation. Those critical estimates and assumptions are based on our historical experience, our observance of trends in the industry, and various other factors that are believed to be reasonable under the circumstances and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates under different assumptions or conditions. Refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 for a discussion of the Company's critical accounting estimates.

**Table of Contents*****Adoption of FASB Interpretation No. 48***

Effective January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of each tax position taken or expected to be taken in a tax return. As a result of the adoption of FIN 48, we recognized a reduction in the liability for unrecognized tax benefits of \$14.2 million, which was recorded as a \$1.8 million reduction to the January 1, 2007 balance of our accumulated deficit, a \$9.1 million reduction in goodwill and a \$3.3 million increase in our deferred tax liability.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

|  |              |
|--|--------------|
| Balance at January 1, 2007                                     | \$ 196.8     |
| Additions based on tax positions related to the current period | 12.1         |
| Additions for tax positions of prior periods                   | 51.4         |
| Reductions for tax positions of prior periods                  | (69.1)       |
| Settlements  | (18.7)       |
| <br>Balance at June 30, 2007                                   | <br>\$ 172.5 |

Included in the balance at June 30, 2007 and January 1, 2007, are \$77.9 million and \$98.2 million (net of the federal benefit on state issues), respectively, of unrecognized tax benefits that, if recognized, would affect the effective income tax rate in any future periods.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

Our market risks, and the ways we manage them, are summarized in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. There have been no material changes in the first six months of 2007 to such risks or our management of such risks.

**Item 4. *Controls and Procedures*****Disclosure Controls and Procedures**

We have carried out an evaluation, under the supervision and 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, or the Securities Exchange Act) as of June 30, 2007. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of June 30, 2007, our disclosure controls and procedures are effective in providing reasonable assurance 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**

We have not made any changes in our internal control over financial reporting during the three months ended June 30, 2007 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***

The section entitled "Litigation" in "Notes to Consolidated Financial Statements" in Part I of this report on Form 10-Q is incorporated into this item by reference.

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

***We are substantially dependent on revenues from our two principal products***

Our current and future revenues depend substantially upon continued sales of our two principal products, AVONEX and RITUXAN, which represented approximately 94% of our total revenues in 2006. Any significant negative developments relating to these two products, such as safety or efficacy issues, the introduction or greater acceptance of competing products (including greater than anticipated substitution of TYSABRI for AVONEX) or adverse regulatory or legislative developments, would have a material adverse effect on our results of operations. Although we have developed and continue to develop additional products for commercial introduction, we expect to be substantially dependent on sales from these two products for many years. A decline in sales from either of these two products would adversely affect our business.

***Our long-term success depends upon the successful development and commercialization of other products from our research and development activities***

Our long-term viability and growth will depend upon the successful development and commercialization of other products from our research and development activities. We, along with Genentech, continue to expand our development efforts related to additional uses for RITUXAN and follow on anti-CD20 product candidates, and we are independently expanding development efforts around other potential products in our pipeline. Product development and commercialization are very expensive and involve a high degree of risk. Only a small number of research and development programs result in the commercialization of a product. Success in early stage clinical trials or preclinical work does not ensure that later stage or larger scale clinical trials will be successful. Even if later stage clinical trials are successful, the risk remains that unexpected concerns may arise from additional data or analysis or that obstacles may arise or issues may be identified in connection with review of clinical data with regulatory authorities or that regulatory authorities may disagree with our view of the data or require additional data or information or additional studies.

If we are unable to introduce new products to the market successfully or are unable to expand the indicated uses of approved products such as RITUXAN and TYSABRI, our results of operations would be adversely affected.

***Adverse safety events can negatively affect our assets, product sales, operations and products in development***

Even after we receive marketing approval for a product, adverse event reports may have a negative impact on our commercialization efforts. Our voluntary withdrawal of TYSABRI from the market in February 2005 following reports of cases of PML resulted in a significant reduction in expected revenues as well as significant expense and management time required to address the legal and regulatory issues arising from the withdrawal, including revised labeling and enhanced risk management programs. Later discovery of safety issues with our products that were not known at the time of their approval by the FDA could cause product liability events, additional regulatory scrutiny and requirements for additional labeling, withdrawal of products from the market and the imposition of fines or criminal

penalties. Any of these actions could result in, among other things, material write-offs of inventory and impairments of intangible assets, goodwill and fixed assets.

***Our near-term success depends on the market acceptance and successful launch of our third product TYSABRI***

A substantial portion of our growth in the near-term is dependent on anticipated sales of TYSABRI. We received regulatory approval to market TYSABRI in the U.S. and the EU for relapsing forms of MS in June of 2006.

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We re-introduced TYSABRI in the U.S. and launched TYSABRI for the first time in Europe in the second half of 2006. TYSABRI is expected to meaningfully diversify our product offerings and revenues, and to drive additional revenue growth over the next several years. Failure to launch the drug successfully would result in a significant reduction in diversification and expected revenues, and adversely affect our business.

The success of the reintroduction of TYSABRI into the U.S. market and launch in the EU will depend upon its acceptance by the medical community and patients, which cannot be certain given the significant restrictions on use and the significant safety warnings in the label. Additional cases of the known side effect PML at a higher rate than indicated in the prescribing information, or the occurrence of other unexpected side effects could harm acceptance and limit TYSABRI sales. Any significant lack of acceptance of TYSABRI by the medical community or patients would materially and adversely affect our growth and our plans for the future.

As a new entrant to a relatively mature MS market, TYSABRI sales may be more sensitive to additional new competing products. A number of such products are expected to be approved for use in MS in the coming years. If these products have a similar or more attractive overall profile in terms of efficacy, convenience and safety, future sales of TYSABRI could be limited.

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

In addition to the expansion of our pipeline through spending on internal development projects, we plan to grow through external growth opportunities, which include the acquisition, partnering and in-licensing of products, technologies and companies or the entry into strategic alliances and collaborations. If we are unable to complete or manage these external growth opportunities successfully, we will not be able to grow our business in the way that we currently expect. The availability of high quality opportunities is limited and we are not certain that we will be able to identify suitable candidates or complete transactions on terms that are acceptable to us. In addition, even if we are able to successfully identify and complete acquisitions, we may not be able to integrate them or take full advantage of them and therefore may not realize the benefits that we expect. If we are unsuccessful in our external growth program, we may not be able to grow our business significantly and we may incur asset impairment charges as a result of acquisitions that are not successful.

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

The biotechnology 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, greater financial and other resources and other technological or competitive advantages. We cannot be certain that one or more of our competitors will not receive patent protection that dominates, blocks or adversely affects our product development or business, will not benefit from significantly greater sales and marketing capabilities, or will not develop products that are accepted more widely than ours. The introduction of alternatives to our products that offer advantages in efficacy, safety or ease of use could negatively affect our revenues and reduce the value of our product development efforts. In addition, potential governmental action in the future could provide a means for competition from developers of follow-on biologics, which could compete on price and differentiation with products that we now or could in the future market.

In addition to competing directly with products that are marketed by substantial pharmaceutical competitors, both AVONEX and RITUXAN also face competition from off-label uses of drugs approved for other indications. Some of our current competitors are also working to develop alternative formulations for delivery of their products, which may in the future compete with ours.

***We depend on collaborators for both product and royalty revenue and the clinical development of future collaboration products, two important parts of our business outside of our full control***

Collaborations between companies on products or programs are a common business practice in the biotechnology industry. Out-licensing typically allows a partner to collect up front payments and future milestone payments, share the costs of clinical development and risk of failure at various points, and access sales and

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marketing infrastructure and expertise in exchange for certain financial rights to the product or program going to the in-licensing partner. In addition, the obligation of in-licensees to pay royalties or share profits generally terminates upon expiration of the related patents. We have a number of collaborators and partners, and have both in-licensed and out-licensed several products and programs. These collaborations include several risks:

we are not fully in control of the royalty or profit sharing revenues we receive from collaborators, and we cannot be certain of the timing or potential impact of factors including patent expirations, pricing or health care reforms, other legal and regulatory developments, failure of our partners to comply with applicable laws and regulatory requirements, the introduction of competitive products, and new indication approvals which may affect the sales of collaboration products;

where we co-promote and co-market products with our collaboration partners, any failure on their part to comply with applicable laws in the sale and marketing of our products could have an adverse effect on our revenues as well as involve us in possible legal proceedings;

collaborations often require the parties to cooperate, and failure to do so effectively could have an impact on product sales by our collaborators and partners, as well as an impact on the clinical development of shared products or programs under joint control.

In addition, the successful development and commercialization of new anti-CD20 product candidates in our collaboration with Genentech (which also includes RITUXAN) will decrease our participation in the operating profits from the collaboration (including as to RITUXAN).

***We depend, to a significant extent, on reimbursement from third party payors and a reduction in the extent of reimbursement could negatively affect 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. U.S. and foreign government regulations mandating price controls and limitations on patient access to our products impact our business and our future results could be adversely affected by changes in such regulations. In addition, states may more aggressively seek Medicaid rebates as a result of legislation enacted in 2006, which rebate activity could adversely affect our results of operations.

In the U.S., many of our products are subject to increasing pricing pressures. Such pressures may increase as a result of the Medicare Prescription Drug Improvement and Modernization Act of 2003. Managed care organizations as well as Medicaid and other government health administration authorities continue to seek price discounts. Government efforts to reduce Medicaid expenses may continue to increase the use of managed care organizations. 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, some states have implemented and other states are considering price controls or patient-access constraints under the Medicaid program and some states are considering price-control regimes that would apply to broader segments of their populations that are not Medicaid eligible. Other matters also could be the subject of U.S. federal or state legislative or regulatory action that could adversely affect our business, including the importation of prescription drugs that are marketed outside the U.S. and sold at lower prices as a result of drug price regulations by the governments of various foreign countries.

We encounter similar regulatory and legislative issues in most other countries. In the EU 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. This international patchwork of price regulations may lead to inconsistent prices. Within the EU and other countries some

third party trade in our products occurs from markets with lower prices thereby undermining our sales in some markets with higher prices. Additionally, certain countries reference the prices in other countries where our products are marketed. Thus, inability to secure adequate prices in a particular country may also impair our ability to obtain acceptable prices in existing and potential new markets. This may create the opportunity for the third party cross border trade previously mentioned or our decision not to sell the product thus affecting our geographic expansion plans.

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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.

***Our business is subject to extensive governmental regulation and oversight and changes in laws could adversely affect our revenues and profitability***

Our business is in a highly regulated industry. As a result, governmental actions may adversely affect our business, operations or financial condition, including:

new laws, regulations or judicial decisions, or new interpretations of existing laws, regulations or decisions, related to health care availability, method of delivery and payment for health care products and services;

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

changes in FDA and foreign regulations that may require additional safety monitoring after the introduction of our products to market, which could increase our costs of doing business and adversely affect the future permitted uses of approved products;

new laws, regulations and judicial decisions affecting pricing or marketing; and

changes in the tax laws relating to our operations.

The enactment in the U.S. of the Medicare Prescription Drug Improvement and Modernization Act of 2003, possible legislation which could ease the entry of competing follow-on biologics in the marketplace, and importation of lower-cost competing drugs from other jurisdictions are examples of changes and possible changes in laws that could adversely affect our business.

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

Our activities, including the sale and marketing of our products, are subject to extensive government regulation and oversight, including regulation under the U.S. Food, Drug and Cosmetic Act and other federal and state statutes and similar laws in foreign jurisdictions. Pharmaceutical and biotechnology companies have been the target of lawsuits and investigations alleging violations of government regulation, including claims asserting antitrust violations and violations of the Prescription Drug Marketing Act, or other violations related to environmental matters. Violations of governmental regulation may be punishable by criminal and civil sanctions, including fines and civil monetary penalties and exclusion from participation in government programs. 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.

The Medicare/Medicaid anti-kickback law, and several similar state laws, prohibit payments intended to induce physicians or others either to purchase or arrange for or recommend the purchase of healthcare products or services. These laws constrain the sales, marketing and other promotional activities of manufacturers of drugs and biologicals, such as us, by limiting the kinds of financial arrangements, including sales programs, with hospitals, physicians, and other potential purchasers of drugs and biologicals. Other federal and state laws generally prohibit individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third party payors that are false or fraudulent, or are for items or services that were not provided as claimed.



Anti-kickback and false claims laws prescribe civil and criminal penalties for noncompliance that can be substantial, including the possibility of exclusion from federal healthcare programs (including Medicare and Medicaid).

***Manufacturing problems could result in our inability to deliver products, inventory shortages, product recalls and increased costs***

We manufacture and expect to continue to manufacture our own commercial requirements of bulk AVONEX and TYSABRI. Our products are difficult to manufacture and problems in our manufacturing processes can occur.

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Our inability to manufacture successfully bulk product and to maintain regulatory approvals of our manufacturing facilities would harm our ability to produce timely sufficient quantities of commercial supplies of AVONEX and TYSABRI to meet demand. Problems with manufacturing processes could result in product defects or manufacturing failures, which could require us to delay shipment of products, recall, or withdraw products previously shipped, or impair our ability to expand into new markets or supply products in existing markets. In the past, we have had to write down and incur other charges and expenses for products that failed to meet specifications. Similar charges may occur in the future.

We currently manufacture TYSABRI at our manufacturing facility in Research Triangle Park, North Carolina, or RTP. Although we are proceeding with construction of the bulk manufacturing component of our large-scale biologic manufacturing facility in Hillerod, Denmark and have added a labeling and packaging component to the project, we currently rely exclusively on our RTP facility for the manufacture of TYSABRI.

If we cannot produce sufficient commercial requirements of bulk product to meet demand, we would need to rely on third party contract manufacturers, of which there are only a limited number capable of manufacturing bulk products of the type we require. We cannot be certain that we could reach agreement on reasonable terms, if at all, with those manufacturers. Even if we were to reach agreement, the transition of the manufacturing process to a third party to enable commercial supplies could take a significant amount of time. Our ability to supply products in sufficient capacity to meet demand is also dependent upon third party contractors to fill-finish, package and store such products. Any prolonged interruption in the operations of our existing manufacturing facilities could result in cancellations of shipments or loss of product in the process of being manufactured. Because our manufacturing processes are highly complex and are subject to a lengthy FDA approval process, alternative qualified production capacity may not be available on a timely basis or at all.

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

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

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

Due to the unique nature of the production of our products, there are several single source providers of raw materials. We make every effort to qualify new vendors and to develop contingency plans so that production is not impacted by short-term issues associated with single source providers. Nonetheless, our business could be materially impacted by long term or chronic issues associated with single source providers.

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

We and our third party providers are generally required to maintain compliance with current Good Manufacturing Practice, or cGMP, and are subject to inspections by the FDA or comparable agencies in other jurisdictions to confirm such compliance. Any changes of suppliers or modifications of methods of manufacturing require amending our application to the FDA and acceptance of the change by the FDA prior to release of product to the marketplace. Our inability, or the inability of our third party service providers, to demonstrate ongoing cGMP

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compliance could require us to withdraw or recall product and interrupt commercial supply of our products. 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. This non-compliance could increase our costs, cause us to lose revenue or market share and damage our reputation.

***We are committing to a significant investment in the expansion of a manufacturing facility the success of which relies upon continued demand for our products***

The first phase of our large-scale biologic manufacturing facility in Hillerod, Denmark, is expected to be completed by the end of the third quarter. As of June 30, 2007, we had committed approximately \$278.0 million to this phase of the project, of which approximately \$275.9 million had been paid.

We are proceeding with the second phase of the facility and our Board of Directors has authorized an additional \$225.0 million to be spent on this phase of the project in addition to amounts spent for the first phase. As of June 30, 2007, we had committed approximately \$188.7 million to the second phase of the project, of which approximately \$33.7 million had been paid.

In the event that we fail to manage the projects, or other unforeseen events occur, we may incur additional costs to complete the project. Additionally, any costs incurred may not be recoverable in the event that projection of the demand for future manufacturing volumes, including the demand for TYSABRI, are not achieved.

***If we are unable to attract and retain qualified personnel and key relationships, the growth of our business could be harmed***

Our success will depend, to a great extent, upon our ability to attract and retain qualified scientific, manufacturing, sales and marketing and executive personnel and our ability to develop and maintain relationships with qualified clinical researchers and key distributors. Competition for these people and relationships is intense and we compete with numerous pharmaceutical and biotechnology companies as well as with universities and non-profit research organizations. Any inability we experience to continue to attract and retain qualified personnel or develop and maintain key relationships could have an adverse effect on our ability to accomplish our research, development and external growth objectives.

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

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

acquired in-process research and development at the time we make an acquisition;

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

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

the cost of restructurings.

Additionally, net income may fluctuate due to the impact of charges we may be required to take with respect to foreign currency hedge transactions. In particular, we may incur higher charges from hedge ineffectiveness than we expect or from the termination of a hedge relationship.

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

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

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

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

A substantial number of patents have already been issued to other biotechnology and biopharmaceutical companies. Competitors may have filed applications for, or have been issued patents and may obtain additional patents and proprietary rights that may relate to products or processes competitive with or similar to our products and processes. Moreover, the patent laws of the U.S. and foreign countries are distinct and decisions as to patenting, validity of patents and infringement of patents may be resolved differently in different countries. In general, we obtain licenses to third party patents that we deem necessary or desirable for the manufacture, use and sale of our products. We are currently unable to assess the extent to which we may wish or be required to acquire rights under such patents and the availability and cost of acquiring such rights, or whether a license to such patents will be available on acceptable terms or at all. There may be patents in the U.S. or in foreign countries or patents issued in the future that are unavailable to license on acceptable terms. Our inability to obtain such licenses may hinder our ability to market our products.

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

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

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

the validity and scope of certain of our proprietary rights. Litigation may be necessary in other instances to determine the validity, scope and/or noninfringement of certain patent rights claimed by third parties to be pertinent to the manufacture, use or sale of our products. Ultimately, the outcome of such litigation could adversely affect the validity and scope of our patent or other proprietary rights, or, conversely, hinder our ability to market our products.

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***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. For example, we may face lawsuits with product liability and other related claims by patients treated with TYSABRI or related to TYSABRI, including lawsuits already filed by patients who have had serious adverse events while using TYSABRI.

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. 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 running our business.

***We have recently incurred substantial indebtedness that could adversely affect our business and limit our ability to plan for or respond to changes in our business.***

We have recently incurred a substantial amount of indebtedness and we may also incur additional debt in the future. This indebtedness could have important consequences to our business, for example, it could:

increase our vulnerability to general adverse economic and industry conditions;

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

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

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

Our business and the business of several of our strategic partners, including Genentech and Elan, involve the controlled use of hazardous materials, chemicals, biologics and radioactive compounds. Biologics manufacturing is extremely susceptible to product loss due to microbial or viral contamination, material equipment failure, or vendor or operator error. 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. In addition, microbial or viral contamination may cause the closure of a manufacturing facility for an extended period of time. By law, radioactive materials may only be disposed of at state-approved facilities. We currently store radioactive materials from our California operation on-site because the approval of a disposal site in California for all California-based companies has been delayed indefinitely. If and when a disposal site is approved, we may incur substantial costs related to the disposal of these materials. 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.

***Our international sales and operations are subject to the risks of doing business abroad***



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

economic problems that disrupt foreign healthcare payment systems;

fluctuations in currency exchange rates;

the imposition of governmental controls;

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less favorable intellectual property or other applicable laws;

the inability to obtain any necessary foreign regulatory or pricing approvals of products in a timely manner;

restrictions on direct investments by foreign entities and trade restrictions;

changes in tax laws and tariffs;

difficulties in staffing and managing international operations; and

longer payment cycles.

Our operations and marketing practices are also subject to regulation and scrutiny by the governments of the other countries in which we operate. In addition, the Foreign Corrupt Practices Act, or FCPA, 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 healthcare professionals we regularly interact with meet the definition of a foreign official for purposes of the FCPA. Additionally, we are subject to other U.S. laws in our international operations. Failure to comply with domestic or foreign laws could result in various adverse consequences, including possible delay in approval or refusal to approve a product, recalls, seizures, withdrawal of an approved product from the market, and/or the imposition of civil or criminal sanctions.

A portion of our business is conducted in currencies other than our reporting currency, the U.S. dollar. We recognize foreign currency gains or losses arising from our operations in the period in which we incur those gains or losses. As a result, currency fluctuations among the U.S. dollar and the currencies in which we do business have caused foreign currency transaction gains and losses in the past and will likely do so in the future. Because of the number of currencies involved, the variability of currency exposures and the potential volatility of currency exchange rates, we may suffer significant foreign currency transaction losses in the future due to the effect of exchange rate fluctuations.

***Our investments in marketable securities are significant and are subject to interest and credit risk that may reduce their value***

We maintain a significant portfolio of investments in marketable securities. Our earnings may be adversely affected by changes in the value of this portfolio. In particular, the value of our investments may be adversely affected by increases in interest rates, downgrades in the corporate bonds included in the portfolio and by other than temporary declines in value. Each of these events may cause us to record charges to reduce the carrying value of our investment portfolio.

***We may incur liabilities to tax authorities in excess of amounts that have been accrued***

The preparation of our financial statements requires estimates of the amount of tax that will become payable in each of the jurisdictions in which we operate. Accordingly, we determine our estimated liability for Federal, state and local taxes (in the U.S.) and in connection with our tax liability in several overseas jurisdictions. We may be challenged by any of these taxing authorities and, in the event that we are not able to defend our position, we may incur liabilities with respect to the taxing authority and such amounts could be significant.

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

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

we are subject to Section 203 of the Delaware General Corporation Law, which provides that we may not enter into a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in the manner prescribed in Section 203;

our stockholder rights plan is designed to cause substantial dilution to a person who attempts to acquire us on terms not approved by our board of directors;

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our board of directors has the authority to issue, without a vote or action of stockholders, up to 8,000,000 shares of preferred stock and to fix the price, rights, preferences and privileges of those shares, each of which could be superior to the rights of holders of common stock;

our amended and restated collaboration agreement with Genentech provides that, in the event we undergo a change of control, within ninety (90) days Genentech may present an offer to us to purchase our rights to RITUXAN. Recently, in an arbitration proceeding brought by Biogen Idec relating to the collaboration agreement, Genentech alleged for the first time that the November 2003 transaction in which Idec acquired Biogen and became Biogen Idec constituted such a change of control, an assertion with which we strongly disagree. It is our position that the Biogen Idec merger did not constitute a change of control under our agreement with Genentech and that, even if it did, Genentech's rights under the change of control provision have long since expired. We intend to vigorously assert our position if Genentech persists in making this claim. If the arbitrators decide this issue in favor of Genentech, or if a change of control were to occur in the future and Genentech were to present an offer for the RITUXAN rights, we must either accept Genentech's offer or purchase Genentech's rights to RITUXAN on the same terms as its offer. If Genentech presents such an offer, then they will be deemed concurrently to have exercised a right, in exchange for a share in the operating profits or net sales in the U.S. of any other anti CD-20 products developed under the agreement, to purchase our interest in each such product. The rights of Genentech described in this paragraph may limit our attractiveness to potential acquirers; our collaboration agreement with Elan provides Elan with the option to buy the rights to TYSABRI in the event that we undergo a change of control, which may limit our attractiveness to potential acquirers;

our directors are elected to staggered terms, which prevents the entire board from being replaced in any single year; and

advance notice is required for nomination of candidates for election as a director and for proposals to be brought before an annual meeting of stock holders.

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

A summary of our stock repurchase activity for the three and six months ended June 30, 2007 is set forth in the table below:

**Issuer Purchases of Equity Securities**

| <b>Period</b>     | <b>Total Number of Shares Purchased (#)(a)</b> | <b>Average Price Paid per Share (\$)</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Program (#)(a)</b> | <b>Number of Shares that may yet be Purchased Under Our Program (#)</b> |
|-------------------|--|--|--|---|
| <b>March 2007</b> | 8,041(b)                                       | \$ 44.99                                 |  | 20,000,000  |
| <b>April 2007</b> | 747(b)   | \$ 44.91                                 |  | 20,000,000  |

|                 |       |    |       |            |
|-----------------|-------|----|-------|------------|
| <b>Total(c)</b> | 8,788 | \$ | 44.98 | 20,000,000 |
|-----------------|-------|----|-------|------------|

- (a) On October 13, 2006 the Board of Directors authorized the repurchase of up to 20.0 million shares of our common stock. The repurchased stock will provide us with authorized shares for general corporate purposes, such as common stock to be issued under our employee equity and stock purchase plans. This repurchase program does not have an expiration date.
- (b) All of these shares are shares that were used by certain employees to pay the exercise price of their stock options in lieu of paying cash or utilizing our cashless option exercise program.
- (c) As more fully described in Note 16, Tender Offer, in the accompanying notes to consolidated financial statements in Part I of this report on Form 10-Q, in July 2007 we consummated a tender offer whereby we repurchased 56,424,155 shares of our common stock at a price of \$53.00 per share.

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**Item 4. *Submission of Matters to a Vote of Security Holders***

We held our Annual Meeting of Stockholders on May 31, 2007. The following proposals were voted upon at the meeting:

- (a) A proposal to elect Marijn E. Dekkers, James C. Mullen, and Bruce R. Ross as directors to serve for a three year term ending in 2010 and until their successors are duly elected and qualified was approved with the following results:

| <b>Director</b>   | <b>For</b>  | <b>Withheld</b> |
|-------------------|-------------|-----------------|
| Marijn E. Dekkers | 295,847,571 | 11,238,219      |
| James C. Mullen   | 295,111,164 | 11,974,626      |
| Bruce R. Ross     | 296,088,593 | 10,997,197      |

- (b) A proposal to ratify the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007 was approved with 304,259,520 votes for, 1,102,477 votes against, and 1,723,793 abstentions. There were no broker non-votes for this proposal.

**Item 6. *Exhibits***

- 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.

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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/ Peter N. Kellogg  
Peter N. Kellogg  
Executive Vice President, Finance and Chief  
Financial Officer

July 24, 2007