

BIOGEN IDEC INC.  
Form 10-Q  
April 23, 2008

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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 March 31, 2008**
- OR**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission File Number 0-19311**

**BIOGEN IDEC INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐  
(Do not check if a smaller reporting  
company)

Smaller reporting  
company ☐

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

The number of shares of the registrant's Common Stock, \$0.0005 par value, outstanding as of April 17, 2008, was 293,022,045 shares.

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**BIOGEN IDEC INC.**

**FORM 10-Q Quarterly Report  
For the Quarterly Period Ended March 31, 2008**

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**PART I FINANCIAL INFORMATION**

**BIOGEN IDEC INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

|   | <b>Three Months Ended<br/>March 31,</b>                           |             |
|---|---|-------------|
|   | <b>2008</b>   | <b>2007</b> |
|   | <b>In thousands, except per share<br/>amounts<br/>(Unaudited)</b> |             |
| Revenues:   |   |             |
| Product   | \$ 665,070  | \$ 484,388  |
| Unconsolidated joint business                                       | 247,223   | 207,164     |
| Other   | 29,893  | 24,358      |
| Total revenues  | 942,186   | 715,910     |
| Costs and expenses:   |   |             |
| Cost of sales, excluding amortization of acquired intangible assets | 100,934   | 81,950      |
| Research and development  | 258,232   | 191,449     |
| Selling, general and administrative                                 | 215,829   | 188,061     |
| Collaboration profit (loss) sharing                                 | 21,406  | (5,567)     |
| Amortization of acquired intangible assets                          | 74,781  | 59,920      |
| In-process research and development                                 | 25,000  | 18,405      |
| Total costs and expenses  | 696,182   | 534,218     |
| Income from operations  | 246,004   | 181,692     |
| Other income (expense), net   | 370   | 21,702      |
| Income before income tax expense                                    | 246,374   | 203,394     |
| Income tax expense  | 83,277  | 71,893      |
| Net income  | \$ 163,097  | \$ 131,501  |
| Basic earnings per share  | \$ 0.55   | \$ 0.39     |
| Diluted earnings per share  | \$ 0.54   | \$ 0.38     |
| Weighted-average shares used in calculating:                        |   |             |
| Basic earnings per share  | 296,171   | 340,310     |
| Diluted earnings per share  | 299,500   | 344,058     |

See accompanying notes to the consolidated financial statements.

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

|  | March 31,<br>2008  | December 31,<br>2007 |
|--|--|----------------------|
|  | (In thousands, except per<br>share amounts)<br>(Unaudited) |                      |
| ASSETS   |  |                      |
| Current assets:                                |  |                      |
| Cash and cash equivalents                      | \$ 688,499   | \$ 659,662           |
| Marketable securities                          | 156,920  | 319,408              |
| Cash collateral received for loaned securities | 124,693  | 208,209              |
| Accounts receivable, net                       | 451,480  | 392,646              |
| Due from unconsolidated joint business         | 159,560  | 166,686              |
| Loaned securities                              | 140,981  | 204,433              |
| Inventory                                      | 237,172  | 233,987              |
| Other current assets                           | 181,170  | 183,376              |
| Total current assets                           | 2,140,475  | 2,368,407            |
| Marketable securities                          | 674,529  | 932,271              |
| Property, plant and equipment, net             | 1,581,664  | 1,497,383            |
| Intangible assets, net                         | 2,421,255  | 2,492,354            |
| Goodwill                                       | 1,140,190  | 1,137,372            |
| Investments and other assets                   | 212,540  | 201,028              |
| Total assets                                   | \$ 8,170,653   | \$ 8,628,815         |
| LIABILITIES AND SHAREHOLDERS EQUITY            |  |                      |
| Current liabilities:                           |  |                      |
| Collateral payable on loaned securities        | \$ 124,693   | \$ 208,209           |
| Accounts payable                               | 114,842  | 90,672               |
| Taxes payable                                  | 54,267   | 11,274               |
| Accrued expenses and other                     | 400,529  | 367,885              |
| Current portion of notes payable               | 12,841   | 1,511,135            |
| Total current liabilities                      | 707,172  | 2,189,175            |
| Notes payable                                  | 1,060,448  | 51,843               |
| Long-term deferred tax liability               | 523,392  | 521,525              |
| Other long-term liabilities                    | 346,933  | 331,977              |
| Total liabilities                              | 2,637,945  | 3,094,520            |

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Commitments and contingencies (Notes 10 and 12)

Shareholders' equity:

Preferred stock, par value \$0.001 per share

Common stock, par value \$0.0005 per share

Additional paid-in capital

Accumulated other comprehensive income

Accumulated deficit

Treasury stock, at cost

Total shareholders' equity

Total liabilities and shareholders' equity

|           |           |
|-----------|-----------|
| 149       | 147       |
| 5,848,543 | 5,807,071 |
| 123,439   | 79,246    |
| (199,204) | (352,169) |
| (240,219) |           |

|           |           |
|-----------|-----------|
| 5,532,708 | 5,534,295 |
|-----------|-----------|

|              |              |
|--------------|--------------|
| \$ 8,170,653 | \$ 8,628,815 |
|--------------|--------------|

See accompanying notes to the consolidated financial statements.



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

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2008</b>                             | <b>2007</b> |
|   | <b>(In thousands)<br/>(Unaudited)</b>   |             |
| Cash flows from operating activities:   |   |             |
| Net income  | \$ 163,097                              | \$ 131,501  |
| Adjustments to reconcile net income to net cash flows from operating activities |   |             |
| Depreciation and amortization of fixed & intangible assets                      | 106,932                                 | 88,815      |
| In process research & development   | 25,000                                  | 18,405      |
| Minority interest of subsidiaries   | 2,710                                   |             |
| Share-based compensation  | 34,529                                  | 29,560      |
| Non-cash interest expense   | 8,142                                   | 437         |
| Deferred income taxes   | 7,183                                   | 5,015       |
| Realized (gain) loss on sale of marketable securities and strategic investment  | (5,267)                                 | 245         |
| Write-down of inventory to net realizable value                                 | 4,386                                   | 6,717       |
| Impairment of investments and other assets                                      | 8,892                                   | 2,460       |
| Excess tax benefit from stock options   | (7,626)                                 | (5,193)     |
| Changes in assets and liabilities, net:   |   |             |
| Accounts receivable   | (54,703)                                | (6,642)     |
| Due from unconsolidated joint business  | 7,126                                   | 16,954      |
| Inventory   | (6,344)                                 | (23,191)    |
| Other assets  | (2,711)                                 | (18,835)    |
| Accrued expenses and other current liabilities                                  | 65,682                                  | 13,494      |
| Other liabilities   | 9,957                                   | 2,587       |
| Net cash flows provided by operating activities                                 | 366,985                                 | 262,329     |
| Cash flows from investing activities:   |   |             |
| Purchases of marketable securities  | (431,659)                               | (878,550)   |
| Proceeds from sales and maturities of marketable securities                     | 917,972                                 | 803,675     |
| Collateral received under securities lending                                    | 83,516                                  |             |
| Acquisitions, net of cash acquired  | (25,000)                                | (42,289)    |
| Purchases of property, plant and equipment                                      | (86,031)                                | (37,332)    |
| Purchases of other investments  | (9,221)                                 | (12,886)    |
| Net cash flows provided by (used in) investing activities                       | 449,577                                 | (167,382)   |
| Cash flows from financing activities:   |   |             |
| Purchase of common stock  | (240,219)                               |             |
| Proceeds from issuance of stock for share based compensation arrangements       | 28,311                                  | 22,908      |
| Change in cash overdrafts   | 13,390                                  | 3           |
| Excess tax benefit from stock options   | 7,626                                   | 5,193       |

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|  |             |            |
|--|-------------|------------|
| Proceeds from borrowings, net of discounts and expenses      | 986,876     |            |
| Repayments of borrowings                                     | (1,500,000) | (3,703)    |
| Obligations under securities lending                         | (83,516)    |            |
| Net cash flow provided by (used in) financing activities     | (787,532)   | 24,401     |
| Net increase in cash and cash equivalents                    | 29,030      | 119,348    |
| Effect of exchange rate changes on cash and cash equivalents | (193)       | 215        |
| Cash and cash equivalents, beginning of the period           | 659,662     | 661,377    |
| Cash and cash equivalents, end of the period                 | \$ 688,499  | \$ 780,940 |

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 a global biotechnology company that creates new standards of care in therapeutic areas with high unmet medical needs. We currently have four marketed products: AVONEX<sup>®</sup>, RITUXAN<sup>®</sup>, TYSABRI<sup>®</sup> and FUMADERM<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, 2007. Our accounting policies are described in the Notes to the Consolidated Financial Statements in our 2007 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 months ended March 31, 2008 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, those of our wholly-owned subsidiaries and of our joint ventures in Italy and Switzerland. In accordance with FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, or FIN 46(R), we consolidate variable interest entities in which we are the primary beneficiary. For such consolidated entities in which we own less than a 100% interest, we record minority interest in other income (expense), net within our statement of income for the ownership interest of the minority owner. 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>March 31,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|-----------------|---------------------------|------------------------------|
| Raw materials   | \$ 50.3                   | \$ 46.4                      |
| Work in process | 150.2                     | 155.4                        |
| Finished goods  | 36.7                      | 32.2                         |
| Total inventory | \$ 237.2                  | \$ 234.0                     |

Table of Contents**BIOGEN IDEC INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the three months ended March 31, 2008 and 2007, we wrote down \$4.4 million and \$6.7 million, respectively, in unmarketable inventory, which was charged to cost of sales.

During 2007, we had TYSABRI product on hand that was written-down in 2005 due to the uncertainties surrounding the TYSABRI suspension, but which was subsequently used to fill orders in 2007. As a result, in 2007, we recognized lower than normal cost of sales and, therefore, higher margins on our sales of TYSABRI. For the three months ended March 31, 2007, cost of sales was approximately \$2.5 million lower due to the sale of TYSABRI inventory that had been written-off. All TYSABRI inventory that had been previously written-off had been shipped at December 31, 2007.

**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.

***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, Veterans Administration rebates, managed care and other applicable allowances 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, 2008                     | \$ 6.4           | \$ 33.1                            | \$ 20.4        | \$ 59.9      |
| Current provisions relating to sales in current period | 14.4             | 37.1                               | 3.0            | 54.5         |
| Adjustments relating to sales in prior periods         |                  | (0.7)                              |                | (0.7)        |
| Payments/returns relating to sales in current period   | (6.7)            | (11.0)                             |                | (17.7)       |
| Payments/returns relating to sales in prior periods    | (5.4)            | (26.0)                             | (3.9)          | (35.3)       |

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|                                |    |     |    |      |    |      |    |      |
|--------------------------------|----|-----|----|------|----|------|----|------|
| Ending balance, March 31, 2008 | \$ | 8.7 | \$ | 32.5 | \$ | 19.5 | \$ | 60.7 |
|--------------------------------|----|-----|----|------|----|------|----|------|