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 September 30, 2006

OR

o **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	**33-0112644**
(State or other jurisdiction of incorporation or organization)	(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 o

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 o Non-Accelerated Filer o

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

The number of shares of the registrant's Common Stock, $0.0005 par value, outstanding as of November 3, 2006, was 337,126,790 shares.

BIOGEN IDEC INC.

FORM 10-Q — Quarterly Report

For the Quarterly Period Ended September 30, 2006

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PART I

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues:				
Product	$ 475,096	$ 391,366	$ 1,317,696	$ 1,187,773
Unconsolidated joint business	203,820	181,597	593,296	526,984
Royalty	21,867	23,117	60,714	71,600
Corporate partner	2,709	131	3,002	3,290
Total revenues	703,492	596,211	1,974,708	1,789,647
Costs and expenses:				
Cost of product revenues, excluding amortization of acquired intangible assets	65,742	88,358	209,195	257,083
Cost of royalty revenues	1,050	1,203	3,085	3,179
Research and development	211,033	227,039	518,910	579,357
Selling, general and administrative	168,153	161,410	492,833	475,637
Amortization of acquired intangible assets	60,011	75,990	206,978	228,746
Acquired in-process research and development	—	—	330,520	—
Facility impairments and loss (gain) on sale	175	21,046	(923)	102,904
Gain on settlement of license agreement	—	—	(34,192)	—
Total costs and expenses	506,164	575,046	1,726,406	1,646,906
Income from operations	197,328	21,165	248,302	142,741
Other income (expense), net	22,319	11,192	62,790	8,318
Income before income tax expense and cumulative effect of accounting change	219,647	32,357	311,092	151,059
Income tax expense	63,048	5,172	205,916	45,910
Income before cumulative effect of accounting change	156,599	27,185	105,176	105,149
Cumulative effect of accounting change, net of income tax	—	—	3,779	—
Net income	$ 156,599	$ 27,185	$ 108,955	$ 105,149
Basic earnings per share:				
Income before cumulative effect of accounting change	$ 0.46	$ 0.08	$ 0.31	$ 0.31
Cumulative effect of accounting change, net of income tax	—	—	0.01	—
Basic earnings per share	$ 0.46	$ 0.08	$ 0.32	$ 0.31
Diluted earnings per share:				
Income before cumulative effect of accounting change	$ 0.45	$ 0.08	$ 0.30	$ 0.31
Cumulative effect of accounting change, net of income tax	—	—	0.01	—
Diluted earnings per share	$ 0.45	$ 0.08	$ 0.31	$ 0.31
Shares used in calculating:				
Basic earnings per share	338,021	336,536	339,527	334,819
Diluted earnings per share	344,754	340,859	345,999	346,581

See accompanying notes to the consolidated financial statements.

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

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 414,594	$ 568,168
Marketable securities	246,425	282,585
Accounts receivable, net	282,519	265,742
Due from unconsolidated joint business	157,319	141,059
Deferred tax assets	44,966	41,242
Inventory	155,119	182,815
Other current assets	74,614	78,054
Assets held for sale	9,601	58,416
Total current assets	1,385,157	1,618,081
Marketable securities	1,372,772	1,204,378
Property and equipment, net	1,246,116	1,174,396
Intangible assets, net	2,795,620	2,975,601
Goodwill	1,153,980	1,130,430
Investments and other assets	232,913	264,061
	$ 8,186,558	$ 8,366,947
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 62,822	$ 99,780
Deferred revenue	6,730	16,928
Taxes payable	139,728	200,193
Accrued expenses and other	285,730	266,135
Total current liabilities	495,010	583,036
Notes payable	45,074	43,444
Long-term deferred tax liability	653,433	762,282
Other long-term liabilities	98,167	72,309
Commitments and contingencies (Notes 7, 10 and 12)		
Shareholders' equity:		
Convertible preferred stock, par value $0.001 per share	—	—
Common stock, par value $0.0005 per share	173	173
Additional paid-in capital	8,260,886	8,206,911
Accumulated other comprehensive loss	(17,876)	(13,910)
Deferred stock-based compensation	—	(42,894)
Accumulated deficit	(954,991)	(1,021,644)
	7,288,192	7,128,636
Less treasury stock, at cost	393,318	222,760
Total shareholders' equity	6,894,874	6,905,876
	$ 8,186,558	$ 8,366,947

See accompanying notes to the consolidated financial statements.

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

	Nine Months Ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net income	$ 108,955	$ 105,149
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation and amortization of fixed and intangible assets	288,653	304,684
Acquisition of in process research and development	330,520	—
Gain on settlement of license agreement	(34,192)	—
Stock-based compensation	102,059	19,465
Non-cash interest expense and amortization of investment premium	623	26,728
Deferred income taxes	(79,777)	(132,211)
Realized loss on sale of marketable securities	2,420	2,983
Write-down of inventory to net realizable value	12,608	65,714
Facility impairments and (gain) loss on sale	(923)	102,904
Impairment of property, plant and equipment	—	3,067
Impairment of investments and other assets	5,021	32,124
Tax benefit from stock options	(12,293)	—
Changes in assets and liabilities, net:		
Accounts receivable	(18,845)	11,497
Due from unconsolidated joint business	(16,260)	(4,092)
Inventory	(22,973)	(42,167)
Other assets	3,527	11,166
Accrued expenses and other current liabilities	(64,871)	99,188
Deferred revenue	(12,969)	4,908
Other long-term liabilities	8,180	3,656
Net cash flows provided by operating activities	599,463	614,763
Cash flows from investing activities:		
Purchases of marketable securities	(1,597,263)	(1,122,712)
Proceeds from sales and maturities of marketable securities	1,468,097	1,536,475
Proceeds from sale of AMEVIVE	59,800	—
Payments for acquisition of Fumapharm, net of cash acquired	(215,468)	—
Payments for acquisition of Conforma, net of cash acquired	(147,783)	—
Acquisitions of property, plant and equipment	(133,840)	(215,950)
Proceeds from sale of property, plant and equipment	35,942	408,130
Purchases of other investments	(5,580)	(117,258)
Net cash flows provided by (used in) investing activities	(536,095)	488,685
Cash flows from financing activities:		
Purchase of treasury stock	(320,268)	(322,590)
Issuance of treasury stock for stock-based compensation arrangements	86,838	88,041
Change in cash overdrafts	(11,145)	(35,439)
Tax benefit from stock options	12,293	—
Repurchase of senior notes	—	(746,415)
Loan proceeds from joint venture partner	15,304	—
Net cash flow used in financing activities	(216,978)	(1,016,403)
Net increase (decrease) in cash and cash equivalents	(153,610)	87,045
Effect of exchange rate changes on cash and cash equivalents	36	—
Cash and cash equivalents, beginning of the period	568,168	209,447
Cash and cash equivalents, end of the period	$ 414,594	$ 296,492
Supplemental cash flow disclosures:		
Cash paid during the period for tax liabilities	$ 322,764	$ 57,112
Cash paid during the period for interest	$ —	$ 38,018

See accompanying notes to the consolidated financial statements.

BIOGEN IDEC INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Business Overview and Summary of Significant Accounting Policies

Overview

Biogen Idec is an international biotechnology company that creates new standards of care in oncology, neurology, and immunology. As a global leader in the development, manufacturing, and commercialization of novel therapies, we transform scientific discoveries into advances in human healthcare.

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, 2005. Our accounting policies are described in the Notes to the Consolidated Financial Statements in our 2005 Annual Report on Form 10-K and updated, as necessary, in this Form 10-Q. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the U.S. The results of operations for the three and nine months ended September 30, 2006 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 results could differ from those estimates.

Principles of Consolidation

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

TYSABRI Status

TYSABRI® (natalizumab) was initially approved by the U.S. Food and Drug Administration, or FDA, in November 2004 to treat relapsing forms of multiple sclerosis, or MS, to reduce the frequency of clinical relapses. In February 2005, in consultation with the FDA, we and Elan Corporation plc, or Elan, voluntarily suspended the marketing and commercial distribution of TYSABRI, and we informed physicians that they should suspend dosing of TYSABRI until further notification. In addition, we suspended dosing in clinical studies of TYSABRI in MS, Crohn's disease, and rheumatoid arthritis, or RA. These decisions were based on reports of cases of progressive multifocal leukoencephalopathy, or PML, a rare brain infection that usually causes death or severe disability, in patients treated with TYSABRI in clinical studies

In March 2006, we and Elan began an open-label, multi-center safety extension study of TYSABRI monotherapy in the U.S. and internationally. On June 5, 2006, we and Elan announced the FDA's approval of the supplemental Biologics License Application, or sBLA, for the reintroduction of TYSABRI as a monotherapy treatment for relapsing forms of MS to slow the progression of disability and reduce the frequency of clinical relapses. On June 29, 2006, we and Elan announced that the European Agency for the Evaluation of Medicinal Products, or EMEA, had approved TYSABRI as a similar treatment. In July 2006, we began to ship TYSABRI in both the United States and Europe. During the three months ended September 30, 2006, we recognized revenue of $18.7 million related to TYSABRI, of which $4.7 million related to product shipments during the period. An additional $14.0 million of

revenue was recognized during the period related to shipments made in 2005 and was recognized in accordance with our revenue recognition policy, as discussed below.

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 thousands):

	September 30, 2006	December 31, 2005
Raw materials	$ 43,329	$ 44,417
Work in process	92,953	107,987
Finished goods	18,837	30,411
Total inventory	$ 155,119	$ 182,815

Capitalization of Inventory Costs

We capitalize inventory costs associated with our products prior to regulatory approval, when, based on management's judgment, future commercialization is considered probable and the future economic benefit is expected to be realized. We consider numerous attributes in evaluating whether the costs to manufacture a particular product should be capitalized as an asset. We assess the regulatory approval process and where the product stands in relation to that approval process including any known constraints and impediments to approval, including safety, efficacy and potential labeling restrictions. We evaluate our anticipated research and development initiatives and constraints relating to the particular product and the indication in which it will be used. We consider our manufacturing environment including our supply chain in determining logistical constraints that could possibly hamper approval or commercialization. We consider the shelf life of the product in relation to the expected timeline for approval and we consider patent related or contract issues that may prevent or cause delay in commercialization. We are sensitive to the significant commitment of capital to scale up production and to launch commercialization strategies. We also base our judgment on the viability of commercialization, trends in the marketplace and market acceptance criteria. Finally, we consider the reimbursement strategies that may prevail with respect to the product and assess the economic benefit that we are likely to realize. We would be required to expense previously capitalized costs related to pre-approval inventory upon a change in such judgment, due to, among other potential factors, a denial or delay of approval by necessary regulatory bodies.

As of September 30, 2006, the carrying value of our inventory did not include any costs associated with products that had not yet received regulatory approval.

TYSABRI

We manufactured TYSABRI during the first and second quarter of 2005 and completed our scheduled production of TYSABRI during July 2005. Because of the uncertain future commercial availability of TYSABRI at the time, and our inability to predict to the required degree of certainty that TYSABRI inventory would be realized in commercial sales prior to the expiration of its shelf life, we expensed $23.2 million of costs related to the manufacture of TYSABRI in the first quarter of 2005 to cost of product revenues. At the time of production, the inventory was believed to be commercially saleable. During 2005, as we worked with clinical investigators to understand the possible risks of PML, we charged the costs related to the manufacture of TYSABRI to research and development expense. As a result, we expensed $21.5 million related to the manufacture of TYSABRI to research and development expense during 2005. As of December 31, 2005, there was no carrying value of TYSABRI inventory on our consolidated balance sheet.

In the first quarter of 2006, in light of expectations of the re-introduction of TYSABRI, we began a new manufacturing campaign. On June 5, 2006, the FDA approved the reintroduction of TYSABRI as a monotherapy treatment for relapsing forms of MS to slow the progression of disability and reduce the frequency of clinical relapses. On June 29, 2006, we and Elan announced the EMEA's approval of TYSABRI as a similar treatment. In July 2006, we began to ship TYSABRI in both the United States and Europe.

As of September 30, 2006, $31.6 million and $0.3 million of TYSABRI inventory value is included in work in process and finished goods, respectively. In addition, we have product on hand that was expensed due to the uncertainties described above but which is available to fill future orders. The approximate cost of such product, based on its cost of manufacture, was $40.6 million. As we sell TYSABRI we will recognize lower than normal cost of product revenues and, therefore, higher margins, in the near future as we ship the inventory that was written off.

TYSABRI currently has an approved shelf life of up to 48 months and, based on our sales forecasts for TYSABRI, we expect the carrying value of the TYSABRI inventory to be realized.

Valuation of Inventory

We periodically review our inventories for excess or obsolete inventory and write-down obsolete or otherwise unmarketable inventory to its estimated net realizable value. If subsequent information indicates the actual realizable value is less than that estimated by us, or if there are any further determinations that inventory will not be marketable based on estimates of demand, additional inventory write-downs may be required. This periodic review may lead us to expense costs associated with the manufacture of TYSABRI or other inventory in subsequent periods.

Our products are subject to strict quality control and monitoring throughout the manufacturing process. Periodically, certain batches or units of product may no longer meet quality specifications or may become unusable based on expiration date. This would require write-downs of commercial inventory that does not meet quality specifications or becomes obsolete. In all cases this product inventory is written-down to its net realizable value.

We have written-down the following unmarketable inventory, which was charged to cost of product revenues (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
AVONEX®	$ 630	$ 583	$ 4,083	$ 10,128
AMEVIVE®	—	9,059	2,433	23,346
ZEVALIN®	110	6,460	3,287	9,040
TYSABRI®	—	—	2,805	23,200
	$ 740	$ 16,102	$ 12,608	$ 65,714

The write-downs for the three and nine months ended September 30, 2006 and 2005, respectively, were the result of the following (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
New components for alternative presentations	$ —	$ —	$ —	$ 8,417
Failed quality specifications	384	4,537	11,113	19,796
Excess and/or obsolescence	356	11,565	1,495	14,301
Costs for voluntary suspension of TYSABRI	—	—	—	23,200
	$ 740	$ 16,102	$ 12,608	$ 65,714

Intangible Assets and Goodwill

In connection with our merger with Biogen, Inc. on November 12, 2003, or the Merger, we recorded intangible assets related to patents, trademarks, and core technology as part of the purchase price. These intangible assets were recorded at fair value, and at September 30, 2006 and December 31, 2005 are net of accumulated amortization and impairments. Intangible assets related to out-licensed patents and core technology are amortized over their estimated useful lives, ranging from 12 to 20 years, based on the greater of straight-line method or economic consumption each period. These amortization costs are included in “Amortization of acquired intangible assets” in the accompanying consolidated statements of income. Intangible assets related to trademarks have indefinite lives, and as a result are not amortized, but are subject to review for impairment. We review our intangible assets for impairment periodically and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

Goodwill associated with the Merger represents the difference between the purchase price and the fair value of the identifiable tangible and intangible net assets when accounted for by the purchase method of accounting. Goodwill is not amortized, but rather subject to periodic review for impairment. Goodwill is reviewed annually and whenever events or changes in circumstances indicate that the carrying amount of the goodwill might not be recoverable.

During the three months ended September 30, 2006, we recognized $46.7 million of amortization on core technology intangible assets. The AVONEX component of this amount was computed on the straight-line method as it was determined that, beginning in the three months ended September 30, 2006, the amortization of the intangible asset would be higher on the straight-line method than on the economic consumption method that had been applied previously.

As of September 30, 2006 and December 31, 2005, intangible assets and goodwill, net of accumulated amortization and impairment charges and adjustments, were as follows (in thousands):

September 30, 2006:	Estimated Life	Historical Cost	Accumulated Amortization	Net
Out-licensed patents	12 years	$ 578,000	$ 138,880	$ 439,120
Core/developed technology	15 - 20 years	3,000,882	712,254	2,288,628
Trademarks & tradenames	Indefinite	64,000	—	64,000
In-licensed patents	14 years	3,000	411	2,589
Assembled workforce	4 years	1,400	117	1,283
Total		$ 3,647,282	$ 851,662	$ 2,795,620
Goodwill	Indefinite	$ 1,153,980	$ —	$ 1,153,980

December 31, 2005:	Estimated Life	Historical Cost	Accumulated Amortization	Adjustments	Net
Out-licensed patents	12 years	$ 578,000	$ 102,756	$ —	$ 475,244
Core/developed technology	15-20 years	2,984,000	542,407	7,993	2,433,600
Trademarks & tradenames	Indefinite	64,000	—	—	64,000
In-licensed patents	14 years	3,000	243	—	2,757
Total		$ 3,629,000	$ 645,406	$ 7,993	$ 2,975,601
Goodwill	Indefinite	$ 1,151,105	$ —	$ 20,675	$ 1,130,430

As discussed in Note 2, Acquisitions and Collaboration Agreements, core/developed technology, goodwill and assembled workforce increased by $26.4 million, $18.5 million, and $1.4 million, respectively, as a result of the acquisition of entities in the second quarter of 2006. During the three months ended June 30, 2006, we recorded an increase to goodwill of $5.4 million to increase reserves for product returns at the time of our merger with Biogen Inc. in 2003. During the third quarter of 2006, in connection with the calculation of the purchase price allocation of Fumapharm, we reduced goodwill by approximately $2.0 million.

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 Elan to the customer. The timing of distributor orders and shipments can cause variability in earnings.

Revenues are recorded net of applicable allowances for returns, patient assistance, trade term discounts, Medicaid rebates, Veteran's Administration rebates, managed care discounts and other applicable allowances. Included in our consolidated balance sheets at September 30, 2006 and December 31, 2005 are allowances for returns, rebates, discounts and other allowances which totaled $61.7 million and $52.7 million, respectively.

At September 30, 2006, our allowance for product returns, which is a component of allowances for returns, rebates, discounts, and other allowances, was $15.9 million. At September 30, 2006, total reserves for product returns were approximately 1.2% of total current assets and less than 0.2% of total assets. We prepare our estimates of product returns based primarily on historical experience updated for changes in facts and circumstances, as appropriate.

During the three months ended June 30, 2006, we recorded an increase in our allowance for expired products of $12.3 million to correct for prior period errors. This increase in the allowance was recorded through an out of period reduction in net product revenue of $6.9 million and an increase in goodwill of $5.4 million. We identified and quantified the errors through an analysis of the historical rate for returns based on volumes of returns and the amount of credit granted to the returning distributors in past periods. At the time of merger with Biogen Inc. in 2003, Biogen Inc. had understated its allowance for expired product by an estimated $5.4 million due to an incorrect methodology applied in calculating its reserve balance. Had we identified this error at the time of the merger, the recorded goodwill would have been approximately $5.4 million higher than has been previously reflected. This methodology was in error because it did not use known information in determining critical assumptions used in the basis of calculation. Our application of this incorrect methodology in the post-merger period resulted in understating this reserve by an additional $6.9 million. In all cases, the correctly calculated rate of return is less than one percent of related gross product revenues. We have determined that, in accordance with APB 28, *Interim Financial Reporting* paragraph 29, this out of period correction is not material to the current year. Additionally, we have determined that the error at the merger date is not material to any prior period balance sheet amounts and the error in the post-merger period is not material to any prior period reported amounts.

For the three and nine months ended September 30, 2006 we recorded $58.5 million and $180.4 million, respectively, in our consolidated statement of income related to sales returns and allowances, rebates, discounts and other allowances, compared to $59.1 million and $167.0 million, respectively for the comparable periods in 2005. In the three and nine months ended September 30, 2006, the amount of these allowances was approximately 12.3% and 13.7%, respectively, of product revenue for all our products, compared to 15.1% and 14.1%, respectively, for the comparable periods in 2005. Product returns, which is a component of allowances for returns, rebates, discounts, and other allowances, were $8.7 million and $30.7 million for the three and nine months ended September 30, 2006, and $4.0 million and $20.1 million for the comparable periods in 2005.

The increase in product returns expense for the three months ended September 30, 2006, as compared to the same period in 2005, is primarily a result of higher returns experience. The increase in expense for product returns for the nine months ended September 30, 2006, as compared to the same period in 2005, is primarily a result of the increases to the reserve discussed above and higher returns experience in the current year. Additionally, in the prior year, the expense included $9.7 million due to the voluntary suspension of TYSABRI. Product returns in the three and nine months ended September 30, 2006 included $3.0 and $9.7 million, respectively, related to product sales made prior to 2006. Of these amounts, $2.3 million was in reserves at December 31, 2005.

TYSABRI

During the third quarter of 2006, we began to sell TYSABRI in both the U.S. and Europe. Under the terms of our agreement with Elan, we manufacture TYSABRI. Furthermore, in the U.S., we sell TYSABRI to Elan who distributes it and co-markets it in collaboration with us.

For sales to Elan in the U.S., we recognize revenue upon Elan's shipment of the product to the customer. The sales price to Elan in the U.S. is predetermined and is set on a quarterly basis, prospectively, in a manner that approximates an equal sharing of the collaboration gross margin between Elan and us. In addition to the sharing of gross margin, both parties share equally in the collaboration operating costs. Elan's reimbursement of our operating costs is reflected as a reduction in the reported amounts of the respective line items, generally research and development and selling, general and administrative costs, within our consolidated statement of operations.

For sales outside of the U.S., we market and distribute TYSABRI and record revenue at the time of product shipment. For these sales, both parties share equally in the net pre-tax profits of the collaboration. Additionally, we reimburse Elan for 100% of the royalty, distribution, selling and other costs Elan incurs on behalf of the collaboration. The equal sharing of the collaboration pre-tax profits and our reimbursement to Elan of their operating costs are reflected in the reported amounts of the respective line items, generally cost of product revenues, excluding amortization of acquired intangible assets and selling, general and administrative costs, within our consolidated statement of operations.

Prior to the suspension of TYSABRI in 2005, we shipped product to Elan and recognized revenue in accordance with the policy described above. Accordingly, as of March 31, 2005, we deferred $14.0 million in revenue from Elan related to sales of TYSABRI that had not yet been shipped by Elan. This amount was paid by Elan during 2005, and was recognized as revenue during the third quarter of 2006 as the uncertainty about the ultimate disposition of the product was eliminated during the period.

As of September 30, 2006, Elan owed us $28.0 million, representing reimbursable commercialization and development expenses incurred by us. This amount is included in other current assets on our consolidated balance sheet.

Revenues from Unconsolidated Joint Business

Revenues from unconsolidated joint business consist of our share of the pretax copromotion profits generated from our copromotion arrangement with Genentech Inc., or Genentech, reimbursement from Genentech of our RITUXAN-related sales force and development expenses, and royalties from Genentech for sales of RITUXAN® (rituximab) outside the U.S. by F. Hoffman LaRoche, or Roche, and Zenyaku Kogyo Co. Ltd., or Zenyaku. Under the copromotion arrangement, all U.S. sales of RITUXAN and associated costs and expenses are recognized by Genentech and we record our share of the pretax copromotion profits on a quarterly basis, as defined in our amended and restated collaboration agreement with Genentech. Pretax copromotion profits under the copromotion arrangement are derived by taking U.S. net sales of RITUXAN to third-party customers less cost of sales, third-party royalty expenses, distribution, selling and marketing expenses, and joint development expenses incurred by Genentech and us. We record royalty revenue on sales of RITUXAN outside the U.S. on a cash basis.

Royalty Revenues

We receive royalty revenues under license agreements with a number of third parties that sell products based on technology we have developed or to which we have rights. The license agreements provide for the payment of royalties to us based on sales of the licensed product. We record these revenues based on estimates of the sales that occurred during the relevant period. The relevant period estimates of sales are based on interim data provided by licensees and analysis of historical royalties we have received (adjusted for any changes in facts and circumstances, as appropriate). We maintain regular communication with our licensees in order to obtain information to develop reasonable estimates. Differences between actual royalty revenues and estimated royalty revenues are reconciled and adjusted for in the period which they become known, typically the following quarter. Historically, adjustments have not been material based on actual amounts received from licensees. There are no future performance obligations on our part under these license agreements. To the extent we do not have sufficient ability to accurately estimate revenue, we record revenue on a cash basis.

Research and Development Expenses

Research and development expenses consist of upfront fees and milestones paid to collaborators and expenses incurred in performing research and development activities including salaries and benefits, facilities expenses, overhead expenses, clinical trial and related clinical manufacturing expenses, share-based compensation expense, contract services, and other outside expenses. Research and development expenses are expensed as incurred. We have entered into certain research agreements in which we share expenses with our collaborator. We have entered into other collaborations where we are reimbursed for work performed on behalf of our collaboration partners. We record these costs as research and development expenses. If the arrangement is a cost-sharing arrangement and there is a period during which we receive payments from the collaborator, we record payments by the collaborator for their share of the development effort as a reduction of research and development expense. If the arrangement is a reimbursement of research and development expenses, we record the reimbursement as corporate partner revenue.

Acquired In-Process Research and Development

Acquired in-process research and development, or IPR&D, represents the fair value assigned to research and development projects that we acquire which have not been completed at the date of acquisition and which have no

future alternative use. Accordingly, the fair value of such projects is recorded as research and development expense as of the acquisition date.

The value assigned to acquired IPR&D is determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to present value. The revenue and costs projections used to value IPR&D were, as applicable, reduced based on the probability of developing a new drug. Additionally, the projections considered the relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by us and our competitors. The resulting net cash flows from such projects are based on management's estimates of cost of sales, operating expenses, and income taxes from such projects. The rates utilized to discount the net cash flows to their present value were based on estimated cost of capital calculations.

If these projects are not successfully developed, the sales and profitability of the company may be adversely affected in future periods. Additionally, the value of other acquired intangible assets may become impaired. We believed that the foregoing assumptions used in the IPR&D analysis were reasonable at the time of the acquisition. No assurance can be given, however, that the underlying assumptions used to estimate expected project sales, development costs or profitability, or the events associated with such projects, will transpire as estimated.

Reclassifications

Certain reclassifications of prior year amounts have been made to conform to current year presentation.

Share-Based Payments

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004) — *Share-Based Payment*, or SFAS 123(R), which requires compensation cost relating to share-based payment transactions to be recognized in the financial statements using a fair-value measurement method. See Note 6, Share-Based Payments, for a complete discussion on our accounting for share-based payments.

Assets Held For Sale

We consider certain real property and certain other miscellaneous assets as held for sale, where they meet the criteria of held for sale under SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

In April 2006, we sold the worldwide rights and other assets of AMEVIVE for $59.8 million, including $43.7 million of inventory on hand, to Astellas Pharma US, Inc. As of December 31, 2005, our AMEVIVE assets held for sale included $8.0 million, net, related to intangible assets, and $5.4 million, of property, plant and equipment, net, and were reported separately in current assets on the consolidated balance sheet. The pre-tax gain on this sale of approximately $2.8 million was deferred and is being recognized over the period of a related long-term supply contract.

In February 2006, we sold our clinical manufacturing facility, known as NICO, in Oceanside, California to Genentech. The assets associated with the facility were included in assets held for sale on our consolidated balance sheet as of December 31, 2005. Total consideration was $29.0 million. In the third and fourth quarters of 2005, we recorded impairment charges of $12.9 million and $15.1 million, respectively, for a total charge of $28.0 million to reduce the carrying value of NICO to its net realizable value. No additional loss resulted from completion of the sale.

In June 2005, we sold our large-scale biologics manufacturing facility in Oceanside, California, known as NIMO, along with approximately 60 acres of real property located in Oceanside, California upon which NIMO is located, together with improvements, related property rights, and certain personal property intangibles and contracts at or related to the real property. Total consideration for the purchase was $408.1 million. For the three and nine months ended September 30, 2005, the loss from this transaction was $7.7 million and $83.3 million, respectively, which consisted primarily of the write-down of NIMO to net selling price, sales and transfer taxes, and other associated transaction costs.

2. Acquisitions and Collaboration Agreements

During 2006, we acquired two entities, Fumapharm AG, or Fumapharm, and Conforma Therapeutics Corporation, or Conforma. Additionally, we entered into three collaborations: with mondoBIOTECH AG, or mondo, Alnylam Pharmaceuticals, Inc., or Alnylam, and UCB, S.A., or UCB.

Fumapharm

On June 15, 2006, we completed the acquisition of 100% of the stock of Fumapharm, a privately held pharmaceutical company based in Switzerland that develops therapeutics derived from fumaric acid esters. As part of the acquisition, we acquired: FUMADERM®, a commercial product available in Germany for the treatment of psoriasis, and BG-12, a clinical-stage compound being studied for the treatment of MS and psoriasis that was being jointly developed by Fumapharm and us. The purpose of this acquisition was to support our goal of developing innovative therapeutic options for people living with MS.

As part of the acquisition, we agreed to pay $220.0 million, of which $218.0 million was paid at closing and $2.0 million was retained and will be paid upon satisfaction of customary representations and warranties. We agreed to additional payments of: i) $15.0 million upon achievement of certain regulatory approvals, and ii) up to an additional $300.0 million in the event that annual and cumulative sales targets, as defined, are achieved. The $2.0 million retention amount has been accrued on our consolidated balance sheet as of September 30, 2006.

The acquisition was funded from our existing cash on hand and has been accounted for as a business combination. Assets and liabilities assumed have been recorded at their fair values as of the date of acquisition. The results of operations for Fumapharm are included from the date of acquisition. We have completed our preliminary purchase price allocation for the acquisition as set out below (in millions):

Purchase Price Allocation	
Current assets	$ 6.5
IPR&D	207.4
Core technology	16.9
Developed technology	9.5
Goodwill	18.5
Other assets	1.2
Deferred tax liabilities	(2.8)
Other liabilities	(2.7)
	$ 254.5

Consideration and Gain	
Consideration	$ 220.0
Gain on settlement of license agreement	34.2
Transaction costs	0.3
	$ 254.5

During the third quarter of 2006, in connection with the calculation of the purchase price allocation, we made adjustments to increase the amounts assigned to inventory and revenue rebates, which are current assets. The net effect of the two adjustments was a reduction in goodwill of approximately $2.0 million. The purchase price allocation is considered preliminary as we are currently evaluating certain executory contracts to determine whether the contracted services will be required. We expect to complete the purchase price allocation during the fourth quarter of 2006.

The amount allocated to IPR&D projects relates to the development of BG-12. BG-12 recently received positive results from a Phase II study of its efficacy and safety for patients with relapsing-remitting MS. We expect to incur approximately an additional $130 million to complete the project. The estimated revenues from BG-12 are expected to be recognized beginning in 2011. A discount rate of 12% was used to value the project, 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, the development of BG-12 had not yet reached technological feasibility, and the research and development in progress had no alternative future uses. Accordingly, the $207.4 million in IPR&D was expensed in the three months ended June 30, 2006.

The fair value of intangible assets was based on valuations using an income approach, with estimates and assumptions determined by management. The core technology asset represents a combination of Fumapharm's processes and procedures related to the design and development of its application products. The developed technology relates to processes and procedures related to products that have reached technological feasibility. Core technology is being amortized over approximately 12 years and the developed technology over approximately 3 years. The excess of purchase price over tangible assets, identifiable intangible assets and assumed liabilities represents goodwill. None of the goodwill or intangible assets acquired is deductible for income tax purposes. As a result, we recorded a deferred tax liability of $2.8 million, based on the tax effect of the amount of the acquired intangible assets other than goodwill with no tax basis.

In addition to the assets acquired, a gain of $34.2 million was recognized coincident with the acquisition of Fumapharm in accordance with EITF 04-1, *Accounting for Preexisting Relationships between the Parties to a Business Combination.* The gain related to the settlement of a preexisting license agreement between Fumapharm and us. The license agreement in question had been entered into in October 2003 and required us to make payments to Fumapharm of certain royalty amounts. The market rate for such payments was determined to have increased due, principally, to the increased technical feasibility of BG-12. The gain relates, principally, to the difference between i) the royalty rates at the time the agreement was entered into as compared to ii) the expected higher royalty rates that would result at the time the agreement was effectively settled by virtue of our acquisition of Fumapharm.

Future contingent consideration payments, if any, will be accounted for as increases to goodwill.

The historical financial results of the acquisition for the three and nine months ended September 30, 2005 and the six months ended June 30, 2006 were not material for comparative purposes.

Conforma

In May 2006, we completed the acquisition of 100% of the stock of Conforma, a privately-held development stage biopharmaceutical company based in California that focused on the design and development of drugs for the treatment of cancer. The goal of this acquisition was to enable us to broaden our therapeutic opportunities in the field of oncology.

We acquired all of the issued and outstanding shares of the capital stock of Conforma for $150.0 million, paid at closing. Of this amount, $15.0 million has been escrowed by the sellers pending satisfaction of customary representations and warranties made by Conforma. Up to an additional $100.0 million could be payable to the sellers upon the achievement of certain future development milestones. Additionally, $0.5 million in transaction costs were incurred and loans of approximately $2.3 million were made to certain non-officer employees of Conforma which are included in other assets in the accompanying consolidated balance sheet. Such loans are fully collateralized and were made for the purpose of assisting the employees in meeting tax liabilities.

The acquisition was funded from our existing cash on hand and was accounted for as an asset acquisition as Conforma is a development-stage company. As a result of the acquisition, we obtained the rights to two compounds in Phase I clinical trials: CNF1010, a proprietary form of the geldanamycin derivative 17-AAG; and CNF2024, a totally synthetic, orally bioavailable heat shock protein 90 inhibitor.

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

Purchase Price Allocation	
Current assets	$ 2.5
Fixed assets	0.8
Deferred tax asset	24.0
Assembled workforce	1.4
IPR&D	123.1
Current liabilities	(1.3)
	$ 150.5

The amount allocated to IPR&D relates to the development of CNF2024, which is in Phase I clinical trials. We expect to incur approximately an additional $116 million to complete the project. The estimated revenues from CNF2024 are expected to be recognized beginning in 2011. A discount rate of 12% was used to value the project, 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, this compound had not reached technological feasibility and had no alternative future use. Accordingly, the $123.1 million in IPR&D was expensed in the three months ended June 30, 2006.

Upon acquisition, we recognized a deferred tax asset of $24.0 million relating to US federal and state net operating losses and tax credit carryforwards that we acquired from Conforma. The amount allocated to deferred tax assets does not include certain tax attributes, such as net operating losses and research credits, that may not be realized because they are subject to annual limitations under the Internal Revenue Code due to a cumulative ownership change of more than 50% which occurred in connection with our acquisition of Conforma.

Future contingent consideration payments, if any, will be expensed to IPR&D.

In connection with this asset purchase, approximately $1.2 million of severance costs were incurred and are recorded in the consolidated statement of operations. (See Note 14, Severance and Other Restructuring Costs).

The historical financial results of the acquisition for the three and nine months ended September 30, 2005 and the six months ended June 30, 2006 were not material for comparative purposes.

Collaboration Agreements

During the third quarter of 2006, we entered into three collaboration agreements, which resulted in $42.5 million in research and development expense. The three agreements were as follows:

mondo

On September 14, 2006, we entered into an exclusive collaboration and license agreement with mondo, a private Swiss biotechnology company, to develop, manufacture and commercialize Aviptadil, a clinical compound for the treatment of pulmonary arterial hypertension, or PAH. In accordance with the agreement, we will be responsible for the global manufacturing, clinical development, regulatory approval and commercialization of Aviptadil. We intend to finalize the development plan for Aviptadil and initiate additional clinical work in 2007.

Under the terms of the agreement, we agreed to pay mondo a $7.5 million upfront payment and will pay up to $30.0 million in milestones payments for successful development and commercialization of Aviptadil in PAH in the U.S. and Europe, as well as royalty payments on commercial sales. The $7.5 million upfront amount has been recorded as research and development expense in the three and nine months ended September 30, 2006.

Additionally, we have indicated our intention to make a minority equity investment of $5.0 million in mondo in the event that it undertakes an initial public offering.

Alnylam

On September 20, 2006, we entered into a collaboration agreement with Alnylam related to discovery and development of RNAi therapeutics for the potential treatment of PML.

Under the terms of the collaboration, we and Alnylam will initially conduct investigative research into the potential of using RNAi technology to develop up to three therapeutics to treat PML. Of the therapeutics presented, we will select one development candidate and one back up candidate and will be responsible for the development and commercialization of the selected candidate. We would also have the option to develop and commercialize the backup candidate at our discretion. We will fund all research and development activities.

We paid Alnylam an upfront payment of $5.0 million and agreed to additional payments of up to $51.3 million in milestone payments, plus royalties in the event of successful development and utilization of any product resulting from the collaboration. The $5.0 million upfront payment has been recorded as research and development expense in the three and nine months ended September 30, 2006.

UCB

On September 28, 2006 we entered into a global collaboration with UCB to jointly develop and commercialize CDP323 for the treatment of relapsing-remitting MS and other potential indications. CDP323 is an orally active small molecule alpha-4 integrin inhibitor expected to enter Phase II clinical trials next year.

Under terms of the agreement, we agreed to pay UCB an upfront payment of $30.0 million and will make development milestone payments to UCB for the first indication of up to $93.0 million, with milestone payments of up to $71.3 million payable for each additional indication. We will also pay UCB up to $75.0 million in commercialization milestones and will contribute significantly to clinical costs for Phase II and Phase III studies. All commercialization costs and profits will be shared equally. The $30.0 million upfront payment has been recorded as research and development expense in the three and nine months ended September 30, 2006.

3. Financial Instruments

Marketable Securities

Available-for-sale

We invest our excess cash balances in short-term and long-term marketable securities, principally corporate notes and U.S. government securities. At September 30, 2006, substantially all of our securities were classified as “available-for-sale.” All available-for-sale securities are recorded at fair market value and unrealized gains and losses are included in accumulated other comprehensive income (loss) in shareholders’ equity, net of related tax effects. Realized gains and losses and declines in value, if any, judged to be other-than-temporary on available-for-securities are reported in other expense. The cost of available-for-sale securities sold is based on the specific identification method.

The average maturity of our marketable securities as of September 30, 2006 and December 31, 2005, was 19 months and 18 months, respectively. Proceeds from maturities and other sales of marketable securities, which were primarily reinvested, were approximately $1.5 billion and $1.5 billion, respectively. Net realized losses on these sales for the nine months ended September 30, 2006 and 2005, were approximately $2.4 million and $11.8 million, respectively.

Investments

As part of our strategic product development efforts, we invest in equity securities of certain biotechnology companies with which we have collaborative agreements. As a matter of policy, we determine on a quarterly basis whether any decline in the fair value of a marketable security is temporary or other-than-temporary. Unrealized gains and losses on marketable securities are included in accumulated other comprehensive income (loss) in shareholders' equity, net of related tax effects. If a decline in the fair value of a marketable security below our cost basis is determined to be other-than-temporary, such marketable security is written-down to its estimated fair value with a charge to current earnings. The factors that we consider in our assessments include the fair market value of the security, the duration of the security's decline, and prospects for the company, including favorable clinical trial results, new product initiatives and new collaborative agreements. The value of these investments is reported in investments and other assets on our consolidated balance sheet.

The following is a summary of marketable securities (in thousands):

September 30, 2006:	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Available-for-sale				
Corporate debt securities				
Current	$ 202,974	$ 32	$ (1,116)	$ 204,058
Non-current	708,071	752	(4,607)	711,926
U.S. Government securities				
Current	43,451	6	(552)	43,997
Non-current	664,701	1,776	(4,461)	667,386
Total available-for-sale securities	$ 1,619,197	$ 2,566	$ (10,736)	$ 1,627,367
Other Investments				
Other marketable securities, non-current	$ 136,950	$ 2,236	$ (27,879)	$ 162,593

December 31, 2005:	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Available-for-sale				
Corporate debt securities				
Current	$ 161,375	$ 4	$ (1,387)	$ 162,758
Non-current	787,592	208	(7,334)	794,718
U.S. Government securities				
Current	121,210	—	(812)	122,022
Non-current	416,786	125	(4,893)	421,554
Total available-for-sale securities	$ 1,486,963	$ 337	$ (14,426)	$ 1,501,052
Other Investments				
Other marketable securities, non-current	$ 143,553	$ 16,050	$ (7,286)	$ 134,789

The amortized cost and estimated fair value of securities available-for-sale at September 30, 2006 by contractual maturity are as follows (in thousands):

	Fair Value	Amortized Cost
Due in one year or less	$ 246,425	$ 248,055
Due after one year	1,372,772	1,379,312
Total available-for-sale securities	$ 1,619,197	$ 1,627,367

Unrealized losses on available for sale securities which are not determined to be other-than-temporary losses have not been recognized at September 30, 2006 consist of the following (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	$ 149,107	$ (1,116)	$ 389,055	$ (4,607)	$ 538,162	$ (5,723)
U.S. Government securities	57,449	(552)	343,390	(4,461)	400,839	(5,013)
Total	$ 206,556	$ (1,668)	$ 732,445	$ (9,068)	$ 939,001	$ (10,736)

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 higher interest rates, and represent 1% of the total fair value of the portfolio. We believe that these unrealized losses are not other-than-temporary, and have the intent and ability to hold these securities with unrealized losses to maturity or recovery.

In the three and nine months ended September 30, 2006 we recognized charges of $0.6 million and $5.0 million, respectively, for certain unrealized losses on available-for-sale securities that were determined to be other-than-temporary. In the three and nine months ended September 30, 2005 we recognized charges of $4.6 million and $13.8 million, respectively, for certain unrealized losses on available-for-sale securities 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 September 30, 2006 have durations of three 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 underlying hedge transaction. To the extent ineffective, hedge transaction gains and losses are reported in earnings.

The notional settlement amount of the foreign currency forward contracts outstanding at September 30, 2006 was approximately $62.0 million. These contracts had a fair value of $3.6 million, representing an unrealized loss, and were included in other current liabilities at September 30, 2006. The notional settlement amount of the foreign currency forward contracts outstanding at December 31, 2005 was approximately $214.0 million. These contracts had a fair value of $0.9 million, representing an unrealized loss, and were included in other current liabilities at December 31, 2005.

For the three and nine months ended September 30, 2006, there was $0.0 million and $0.9 million, respectively recognized in earnings as a loss due to hedge ineffectiveness. For the nine months ended September 30, 2005, we recognized $1.0 million of gains in earnings due to hedge ineffectiveness and no significant amounts as a result of the discontinuance of cash flow hedge accounting on a contract because it was no longer probable that the hedge forecasted transaction would occur. We recognized approximately $3.2 million and $6.9 million of losses in product revenue for the settlement of certain effective cash flow hedge instruments for the three and nine months ended September 30, 2006, respectively, as compared to approximately $0.5 million and $1.8 million of losses for the three and nine months ended September 30, 2005, respectively. We recognized no significant amounts in royalty revenue for the settlement of effective cash flow hedge instruments for the three and nine months ended September 30, 2006, as compared to no significant amounts and $0.3 million of losses for the three and nine months ended September 30, 2005, respectively.

These settlements were recorded in the same period as the related forecasted transactions affecting earnings.

4. Comprehensive Income (Loss)

Our accumulated other comprehensive income (loss) was as follows (in thousands):

	September 30, 2006	December 31, 2005
Translation adjustments	$ 5,631	$ (9,960)
Unrealized holding gains and losses on marketable securities and other investments, net of taxes of $12,513 and $1,948, respectively	(21,302)	(3,376)
Unrealized gains and losses on derivative instruments, net of taxes of $1,359 and $337, respectively	(2,205)	(574)
Total accumulated comprehensive income (loss)	$ (17,876)	$ (13,910)

The activity in comprehensive income for the three and nine months ended September 30, 2006, and 2005, was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	$ 156,599	$ 27,185	$ 108,955	$ 105,149
Translation adjustments	(4,034)	(2,484)	15,591	(12,325)
Unrealized holding gains and losses on investments, net of tax of $4,776, $2,845, $(10,562), $585, respectively	5,799	4,845	(17,926)	996
Unrealized gains and losses on derivative instruments, net of tax of $1,708, $(98), $(1,022), $6,993, respectively	2,891	(168)	(1,631)	11,907
Total comprehensive income	$ 161,255	$ 29,378	$ 104,989	$ 105,727

5. Earnings per Share

We calculate earnings per share in accordance with Statement of Financial Accounting Standards No. 128, *Earnings per Share*, or SFAS 128, and EITF 03-06, *Participating Securities and the Two-Class Method Under SFAS 128*, or EITF 03-06. SFAS 128 and EITF 03-06 together require the presentation of “basic” earnings per share and “diluted” earnings per share.

Basic earnings per share is computed using the two-class method. Under the two-class method, undistributed net income is allocated to common stock and participating securities based on their respective rights to share in dividends. We have determined that our preferred shares meet the definition of participating securities, and have allocated a portion of net income to our preferred shares on a pro rata basis. Net income allocated to preferred shares is excluded from the calculation of basic earnings per share. For basic earnings per share, net income available to holders of common stock is divided by the weighted average number of shares of common stock outstanding. For purposes of calculating diluted earnings per share, net income is adjusted for the after-tax amount of interest associated with convertible debt and net income allocable to preferred shares, and the denominator includes both the weighted average number of shares of common stock outstanding and the potential dilutive shares of common stock from stock options, restricted stock awards, restricted stock units and other convertible securities, to the extent they are dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Numerator:				
Income before cumulative effect of accounting change	$ 156,599	$ 27,185	$ 105,176	$ 105,149
Cumulative effect of accounting change	—	—	3,779	—
Net income	156,599	27,185	108,955	105,149
Adjustment for net income allocable to preferred shares	228	40	158	155
Net income used in calculating basic earnings per share	156,371	27,145	108,797	104,994
Adjustment for interest, net of tax	—	—	—	1,467
Net income used in calculating diluted earnings per share	$ 156,371	$ 27,145	$ 108,797	$ 106,461
Denominator:				
Weighted average number of common shares outstanding	338,021	336,536	339,527	334,819
Effect of dilutive securities:				
Convertible promissory notes due 2019	3,048	—	3,048	6,558
Stock options	1,656	2,615	2,085	3,527
Restricted stock awards	877	1,708	772	1,677
Time-vested restricted stock units	453	—	283	—
Performance-based restricted stock units	626	—	211	—
Convertible promissory notes due 2032	73	—	73	—
Dilutive potential common shares	6,733	4,323	6,472	11,762
Shares used in calculating diluted earnings per share	344,754	340,859	345,999	346,581

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Numerator:				
Net income allocable to preferred shares	$ 228	$ 40	$ 158	$ 155
Adjustment for interest, net of tax	—	446	—	5,752
Total	$ 228	$ 486	$ 158	$ 5,907

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Denominator:				
Convertible preferred stock	493	493	493	493
Stock options	19,327	22,991	17,646	17,674
Time-vested restricted stock units	1,439	—	44	—
Convertible promissory notes due 2019	—	3,048	—	—
Convertible promissory notes due 2032	—	73	—	3,817
Total	21,259	26,605	18,183	21,984

6. Share-Based Payments

Fair Value Method Accounting

Our share-based compensation programs consist of share-based awards granted to employees including stock options, restricted stock awards, and performance and time-vested restricted stock units, (which convert to one common share per unit when vested), as well as our employee stock purchase plan.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123(R). SFAS 123(R) requires compensation cost relating to share-based payment transactions to be recognized in the financial statements using a fair-value measurement method. Under the fair value method, the estimated fair value of awards is charged against income over the requisite service period, which is generally the vesting period. We selected the modified prospective method as prescribed in SFAS 123(R) and, therefore, prior periods were not restated. Under the modified prospective application, SFAS 123(R) was applied to new awards granted in 2006, as well as to the unvested portion of previously granted share-based awards for which the requisite service had not been rendered as of December 31, 2005. Where awards are made with non-substantive vesting periods (for instance, where a portion of the award vests upon retirement eligibility), we estimate and recognize expense based on the period from the grant date to the date on which the employee is retirement eligible.

On December 6, 2005, our Board of Directors approved the acceleration of vesting of unvested stock options then outstanding having an exercise price per share of $55.00 or higher, granted under our stock option plans that were held by current employees, including executive officers. Shares of common stock acquired by our executive officers upon the exercise of stock options whose vesting was so accelerated generally are subject to transfer restrictions until such time as the stock options otherwise would have vested. Options held by our non-employee directors were excluded from this vesting acceleration. As a result, the vesting of options granted predominantly from 2001 to 2005 with respect to approximately 4,518,809 shares of our common stock was accelerated.

The purpose of this acceleration was to eliminate future compensation expense that we would otherwise have recognized in our results of operation upon adoption of SFAS 123(R) in 2006. The approximate future expense eliminated by the acceleration, based on a Black-Scholes calculation, was estimated to be approximately $93.1 million between 2006 and 2009 on a pre-tax basis. The acceleration did not result in any compensation expense being recorded in 2005.

In the third quarter of 2006, we recorded pre-tax share-based compensation expense of $37.9 million. In the nine months ended September 30, 2006, we recorded pre-tax share-based compensation expense of $102.1 million. The expense for the nine months is net of a cumulative effect pre-tax adjustment of $5.6 million, or $3.8 million after-tax, resulting from the application of an estimated forfeiture rate for prior period unvested restricted stock awards. As a result of adopting SFAS 123(R) on January 1, 2006, our net income before taxes and net income for the three and nine months ended September 30, 2006 is $14.2 million (or $0.04 per share on a basic and diluted basis) and $37.8 million (or $0.11 per share on a basic and diluted basis) lower than if we had continued to account for stock-based employee compensation under APB 25.

For the three and nine months ended September 30, 2006, share-based compensation expense reduced our results of operations as follows (in thousands except for earnings per share):

	Three months ended September 30, 2006			Nine months ended September 30, 2006		
	Effect before cumulative effect of accounting change	Cumulative effect of accounting change	Effect on net income	Effect before cumulative effect of accounting change	Cumulative effect of accounting change	Effect on net income
Income Before Income Taxes	$ 37,881	$ —	$ 37,881	$ 107,633	$ (5,574)	$ 102,059
Tax effect	12,101	—	12,101	33,991	(1,795)	32,196
Net income	$ 25,780	$ —	$ 25,780	$ 73,642	$ (3,779)	$ 69,863
Basic earnings per share:	$ 0.08	$ —	$ 0.08	$ 0.22	$ (0.01)	$ 0.21
Diluted earnings per share:	$ 0.07	$ —	$ 0.07	$ 0.21	$ (0.01)	$ 0.20

Share-based compensation cost for the three and nine months ended September 30, 2006 as follows (in thousands):

	Three months ended September 30, 2006			Nine months ended September 30, 2006		
	Stock options & ESPP	Restricted Stock and Restricted Stock Units	Total	Stock options & ESPP	Restricted Stock and Restricted Stock Units	Total
Research and development	$ 5,268	$ 9,379	$ 14,647	$ 16,636	$ 26,799	$ 43,435
Selling, general and administrative	7,788	16,144	23,932	24,587	42,042	66,629
Total	$ 13,056	$ 25,523	$ 38,579	$ 41,223	$ 68,841	$ 110,064
Pre-tax cumulative effect catch-up			—			(5,574)
Pre-tax effect of share-based compensation			$ 38,579			$ 104,490
Capitalized share-based payment costs			(698)			(2,431)
Share-based compensation expense			$ 37,881			$ 102,059

For the three and nine months ended September 30, 2006, we capitalized costs of $0.7 million and $2.4 million associated with share-based compensation to inventory and fixed assets. We did not capitalize share based compensation cost in our pro forma footnotes under SFAS 123(R). For the three and nine months ended September 30, 2005, we recorded share-based compensation expense of approximately $2.6 million and $17.3 million, which was primarily related to expenses for restricted stock awards.

In accordance with SFAS 123(R), windfall tax benefits from stock option exercises of $12.3 million were recorded as cash inflows from financing activities in our consolidated statement of cash flows in the nine months ended September 30, 2006. The total amount of tax benefit realized during the nine months ended September 30, 2006, was $21.0 million. Cash received from the exercise of stock options in the three and nine months ended September 30, 2006 was approximately $9.1 million and $75.4 million.

At September 30, 2006, unrecognized compensation costs relating to unvested share-based compensation was approximately $135.1 million. We expect to recognize the cost of these unvested awards over a weighted-average period of one year. In accordance with SFAS 123(R), deferred share-based compensation is no longer reflected as a separate component of shareholders' equity in the consolidated balance sheet. As a result, we reclassified our deferred share-based compensation of $42.9 million at December 31, 2005 to additional paid in capital during the first quarter of 2006.

Stock Based Compensation Plans

We have three share-based compensation plans pursuant to which awards are currently being made: (i) our 2006 Non-Employee Directors Equity Plan, or the 2006 Directors Plan; (ii) our 2005 Omnibus Equity Plan, or the 2005 Omnibus Plan; and (iii) our 1995 Employee Stock Purchase Plan, or ESPP. We have four share-based compensation plans pursuant to which outstanding awards have been made, but from which no further awards can or will be made: (i) our 1993 Non-Employee Directors Stock Option Plan, or the 1993 Directors Plan; (ii) our 1998 Stock Option Plan; (iii) the Biogen, Inc. 1985 Non-Qualified Stock Option Plan; and (iv) the Biogen, Inc. 1987 Scientific Board Stock Option Plan. In addition, we have our 2003 Omnibus Equity Plan, or the 2003 Omnibus Plan, pursuant to which outstanding awards have been made. We have not made any awards from the 2003 Omnibus Plan since our stockholders approved the 2005 Omnibus Plan and do not intend to make any awards from the 2003 Omnibus Plan in the future.

Directors Plan: In May 2006, our stockholders approved the 2006 Directors Plan for share-based awards to our directors. Awards granted from the 2006 Directors Plan may include options, shares of restricted stock, restricted stock units, stock appreciation rights and other awards in such amounts and with such terms and conditions as may be determined by a committee of our Board of Directors, subject to the provisions of the plan. We have reserved a total of 850,000 shares of common stock for issuance under the 2006 Directors Plan. The 2006 Directors Plan provides that awards other than stock options and stock appreciation rights will be counted against the total number of shares reserved under the plan in a 1.5-to-1 ratio.

Omnibus Plans: In June 2005, our stockholders approved the 2005 Omnibus Plan for share-based awards to our employees. Awards granted from the 2005 Omnibus Plan may include options, shares of restricted stock, restricted stock units, performance shares, shares of phantom stock, stock bonuses, stock appreciation rights and other awards in such amounts and with such terms and conditions as may be determined by a committee of our Board of Directors, subject to the provisions of the plan. Shares of common stock available for issuance under the 2005 Omnibus Plan consist of 15.0 million shares reserved for this purpose, plus shares of common stock that remained available for issuance under the 2003 Omnibus Plan on the date that our stockholders approved the 2005 Omnibus Plan, plus shares that are subject to awards under the 2003 Omnibus Plan which remain unissued upon the cancellation, surrender, exchange or termination of such awards. The 2005 Omnibus Plan provides that awards other than stock options and stock appreciation rights will be counted against the total number of shares available under the plan in a 1.5-to-1 ratio.

Stock options

All stock option grants to employees are for a ten-year term and generally vest one-fourth per year over four years on the anniversary of the date of grant, provided the employee remains continuously employed with us. Stock option grants to directors are for ten-year terms and generally vest as follows: (i) grants made on the date of a director's initial election to our Board of Directors vest one-third per year over three years on the anniversary of the date of grant, and (ii) grants made for service on our Board of Directors vest on the first anniversary of the date of grant, provided in each case that the director continues to serve on our Board of Directors through the vesting date. Options granted under all plans are exercisable at a price per share not less than the fair market value of the underlying common stock on the date of grant. The estimated fair value of options, including the effect of estimated forfeitures, is recognized over the options' vesting periods. The fair value of the stock option grants awarded in the three and nine months ended September 30, 2006 were estimated as of the date of grant using a Black-Scholes option valuation model that uses the following weighted-average assumptions:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Expected dividend yield	0%	0%
Expected stock price volatility	34.8%	34.8%
Risk-free interest rate	4.70%	4.38%
Expected option life in years	4.87	4.87
Per share grant-date fair value	$13.33	$16.88

Expected volatility is based primarily upon implied volatility for our exchange-traded options and other factors, including historical volatility. After assessing all available information on either historical volatility, implied volatility, or both, we have concluded that a combination of both historical and implied volatility provides the best estimate of expected volatility. The expected term of options granted is derived using assumed exercise rates based on historical exercise patterns and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate used is determined by the market yield curve based upon risk-free interest rates established by the Federal Reserve, or non-coupon bonds that have maturities equal to the expected term. The dividend yield of zero is based upon the fact that we have not historically granted cash dividends, and do not expect to issue dividends in the foreseeable future. Stock options granted prior to January 1, 2006 were valued based on the grant date fair value of those awards, using the Black-Scholes option pricing model, as previously calculated for pro-forma disclosures under SFAS 123. For the three and nine months ended September 30, 2006, we recorded $10.8 million and $34.2 million of stock compensation related to stock options.

A summary of stock option activity is presented in the following table (shares are in thousands):

	All Option Plans	
	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2005	31,306	$45.71
Granted	1,882	$45.09
Exercised	(2,961)	$25.48
Cancelled	(2,995)	$53.24
Outstanding at September 30, 2006	27,232	$47.05

During the quarter ended September 30, 2006, 19,800 options were granted, 386,463 were exercised and 465,973 were cancelled. The weighted-average grant-date fair values of stock options granted during the three months ended September 30, 2006 and 2005 were $13.33 and $15.50, respectively. The weighted-average grant-date fair values of stock options granted during the nine months ended September 30, 2006 and 2005 were $16.88 and $25.18, respectively. The total intrinsic values of options exercised for the three months ending September 30, 2006 and 2005, were $7.7 million and $16.9 million, respectively. The total intrinsic values of options exercised for the nine months ending September 30, 2006 and 2005, were $61.6 million and $78.3 million, respectively. The weighted average remaining contractual terms for options outstanding and exercisable at September 30, 2006 and 2005 were 6.0 and 6.5 years, respectively.

Time-Vested Restricted Stock Units

Time-vested restricted stock units, or “RSUs,” awarded to employees vest one-third per year over three years on the anniversary of the date of grant, provided the employee remains continuously employed with us. Shares of our common stock will be delivered to the employee upon vesting, subject to payment of applicable withholding taxes. Time-vested RSUs awarded to directors vest as follows: (i) awards made on the date of a director’s initial election to our Board of Directors vest one-third per year over three years on the anniversary of the date of award, and (ii) awards made for service on our Board of Directors vest on the first anniversary of the date of award, provided in each case that the director continues to serve on our Board of Directors through the vesting date. Shares of our common stock will be delivered to the director upon vesting. The fair value of all time-vested RSUs is based on the market value of our stock on the date of grant. Compensation expense, including the effect of forfeitures, is recognized over the applicable service period. For the three and nine months ended September 30, 2006, we recorded $9.3 million and $21.3 million of stock compensation charges related to time-vested RSUs.

A summary of time-vested RSU activity is presented in the following table (shares are in thousands):

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2005	—	$ —
Granted	2,501	$44.37
Vested	(5)	$44.24
Forfeited	(173)	$44.30
Unvested at September 30, 2006	2,323	$44.38

During the quarter ended September 30, 2006, 104,636 time-vested RSU's were granted, 4,500 vested, and 85,259 were forfeited. The weighted-average grant-date fair value of the time-vested RSUs granted during the quarter ended September 30, 2006 was $44.27. The weighted average remaining contractual term for the time-vested RSUs was 1.4 years as of September 30, 2006.

Performance-Based Restricted Stock Units

In the first quarter of 2006, our Board of Directors awarded 100,000 RSUs to our CEO, under the 2005 Omnibus Plan, subject to certain 2006 financial performance criteria. If the performance criteria are attained and our CEO is still in active employment in February 2007, up to 100,000 RSUs will vest and convert into shares of our common stock.

During the third quarter of 2005, we granted 1.18 million performance-based RSUs, to be settled in shares of our common stock, to a group of approximately 200 senior employees excluding our CEO. The grants were made under the 2005 Omnibus Plan. The RSUs will convert into shares of our common stock, subject to attainment of certain performance goals and the employee's continued employment. On September 14, 2006, 70% of the RSUs for all employees still in active employment, or 758,262 shares, vested as the required performance goals had been determined to have been achieved. A total of 510,859 shares were issued, reflecting the fact that certain shares were withheld for income tax purposes.

On March 14, 2007, the remaining 30% of the RSUs will vest and convert into shares if the performance goals are attained and the employee is still in active employment. Shares of our common stock will be delivered to the employee upon vesting, subject to payment of applicable withholding taxes.

In the three and nine months ended September 30, 2006, we recorded compensation charges of approximately $10.1 million and $31.0 million related to performance-based restricted stock units. The fair value of these units was based on the market value of our stock on the date of grant and assumes that the target payout level will be achieved. Compensation cost is adjusted quarterly for subsequent changes in the outcome of performance-related conditions until the vesting date.

A summary of performance-based RSU activity is presented in the following table (shares are in thousands):

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2005	1,154	$40.67
Granted	100	$44.59
Vested	(758)	$40.67
Forfeited	(83)	$40.67
Unvested at September 30, 3006	413	$41.62

No performance-based RSUs were granted during the three months ended September 30, 2006, 758,262 were vested and 33,175 were forfeited. The weighted average remaining contractual term for the performance-based RSUs was 0.4 years as of September 30, 2006.

Restricted Stock Awards

In 2005 and 2004, we awarded restricted common stock to our employees under the 2005 Omnibus Plan and the 2003 Omnibus Plan at no cost to the employees. The restricted stock will vest in full on the third anniversary of the date of award, provided the employee remains continuously employed with us. During the vesting period, the recipient of the restricted stock has full voting rights as a stockholder, even though the restricted stock remains subject to transfer restrictions and will generally be forfeited upon termination of employment by the recipient prior to vesting.

For the three months ended September 30, 2006, we recorded $6.1 million of stock compensation charges related to restricted stock awards. For the nine months ended September 30, 2006, we recorded $16.5 million of stock compensation charges related to restricted stock awards, prior to a first quarter pre-tax cumulative effect catch-up credit of $5.6 million, or $3.8 million after-tax, resulting from the application of an estimated forfeiture rate for prior period unvested restricted stock awards. The fair value of all time-vested RSAs is based on the market value of our stock on the date of grant. Compensation expense, including the effect of forfeitures, is recognized over the applicable service period.

A summary of restricted stock award activity is presented in the following table (shares are in thousands):

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2005	1,440	$53.87
Granted	—	$ —
Vested	(11)	$43.00
Forfeited	(157)	$55.82
Unvested at September 30, 2006	1,272	$53.72

No restricted common stock was awarded in the three months ended September 30, 2006, 10,715 shares vested and 48,490 shares were forfeited. The weighted average remaining contractual term for the restricted stock was 0.8 years as of September 30, 2006.

Employee Stock Purchase Plan

Under the terms of the ESPP, employees can elect to have up to ten percent of their annual compensation (subject to certain dollar limits) withheld to purchase shares of our common stock. The purchase price of the common stock is equal to 85% of the lower of the fair market value of the common stock on the enrollment or purchase date under a look-back provision. During the three and nine months ended September 30, 2006, 0.1 million and 0.4 million shares, respectively, were issued under the ESPP. During the three and nine months ended September 30, 2005, 0.1 million and 0.5 million shares, respectively, were issued under the ESPP. We utilize the Black-Scholes model to calculate the fair value of these discounted purchases. The fair value of the look-back provision plus the 15% discount amount is recognized as compensation expense over the purchase period. In the three and nine months ended September 30, 2006, we recorded compensation charges of approximately $2.2 million and $7.0 million, respectively.

Pro-forma Disclosure

The following table illustrates the effect on net income and earnings per share if we were to have applied the fair-value based method to account for all stock-based awards for the three and nine months ended September 30, 2005 (in thousands, except per share amounts).

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	$ 27,185	$ 105,149
Stock-based compensation expense included in net income, net of tax	2,916	13,226
Pro forma stock compensation expense, net of tax	(17,323)	(59,638)
Pro forma net income	$ 12,778	$ 58,737
Reported basic earnings per share:	$ .08	$ .31
Pro forma basic earnings per share:	$ .04	$ .18
Reported diluted earnings per share:	$ .08	$ .31
Pro forma diluted earnings per share:	$ .04	$ .17

The pro-forma amounts and fair value of each option grant on the date of grant were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in the period:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Expected dividend yield	0%	0%
Expected stock price volatility	35%	35%
Risk-free interest rate	4.2%	4.1%
Expected option life in years	5.4	5.4

7. Income Taxes

Tax Rate

The provision for income taxes includes federal, state, local and foreign taxes. Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences between the financial statement carrying amounts and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which the temporary differences are expected to be recovered or settled. We evaluate the realizability of our deferred tax assets and establish a valuation allowance when it is more likely than not that all or a portion of deferred tax assets will not be realized.

We periodically estimate our probable tax obligations using historical experience in tax jurisdictions and informed judgments. There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which we transact business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to, or further interpretations of, regulations. We adjust our income tax expense in the period in which these events occur.

Our effective tax rate was 28.7% on pre-tax income for the three months ended September 30, 2006 and 66.2% on pre-tax income before the cumulative effect of accounting change, for the nine months ended September 30, 2006, compared to 16.0% and 30.4% for the comparable periods in 2005. Our effective tax rate for the periods ending September 30 differs from the U.S. federal statutory rate primarily due to the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Statutory rate	35.0%	35.0%	35.0%	35.0%
State taxes	1.6%	1.8%	3.5%	2.7%
Foreign taxes	(7.8)%	(47.1)%	(13.4)%	(22.6)%
Credits	(0.0)%	2.9%	(0.3)%	(1.9)%
Other	(1.1)%	1.9%	1.1%	0.2%
Fair value adjustment	1.0%	21.5%	7.0%	17.0%
IPR&D	0.0%	0.0%	37.2%	0.0%
Gain on settlement of Fumapharm license agreement	0.0%	0.0%	(3.9)%	0.0%
Effective tax rates	28.7%	16.0%	66.2%	30.4%

Our effective tax rate for the three months ended September 30, 2006 were lower than the US statutory rate primarily due to the effect of lower income tax rates (less than the 35% U.S. statutory corporate rate) in certain non-U.S. jurisdictions in which we operate.

Our effective tax rate for the nine months ended September 30, 2006 was higher than the US statutory rate primarily due to the write-off of non-deductible IPR&D in connection with the acquisitions of Conforma and Fumapharm, (offset by the gain on settlement of the Fumapharm license agreement), and the impact of acquisition-related intangible amortization related to foreign jurisdictions and state taxes, offset by the effect of lower income tax in certain non-U.S. jurisdictions.

Our effective tax rates for the three and nine months ended September 30, 2005 were lower than the US statutory rate primarily due to the effect of lower income tax rates (less than 35% U.S. statutory corporate rate) in certain non-U.S. jurisdictions, offset by acquisition-related intangible amortization expenses arising from purchase accounting related to foreign jurisdictions.

We have net operating loss carryforwards and tax credit carryforwards for federal and state income tax purposes available to offset future taxable income. The utilization of our net operating loss carryforwards and tax credits may be subject to an annual limitation under the Internal Revenue Code due to a cumulative change of ownership of more than 50% in prior years. However, other than for tax attributes acquired as part of the Conforma transaction, we anticipate that the annual limitation will result only in a modest delay in the utilization of such net operating loss and tax credits.

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 based on facts and conditions currently not available to us, this could have a material impact on our future effective tax rate and our results of operations in the period in which an event would occur.

8. Other Income (Expense), Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Interest income	$ 26,031	$ 16,530	$ 75,702	$ 44,636
Interest expense	(74)	(571)	(553)	(10,331)
Other expense, net	(3,638)	(4,767)	(12,359)	(25,987)
Total other income (expense), net	$ 22,319	$ 11,192	$ 62,790	$ 8,318

Interest income totaled $26.0 million and $75.7 million, respectively, for the three and nine months ended September 30, 2006 compared to $16.5 million and $44.6 million, respectively, for the comparable periods in 2005. The increase in interest income is primarily due to higher yields on our marketable securities portfolio as well as higher average cash balances.

Interest expense totaled $0.1 million and $0.6 million, respectively, for the three and nine months ended September 30, 2006 compared to $0.6 million and $10.3 million, respectively, for the comparable period of 2005. The decrease for the three months represents amounts capitalized in the current year. The decrease in interest expense for the nine months relates, principally, to the repurchase of our senior notes in the second quarter of 2005.

For the three months ended September 30, 2006, the principal components of other expense, net, were primarily minority interest expense ($2.0 million), currency translation adjustment loss ($0.7 million), and realized losses on sales of marketable securities ($0.7 million). For the three months ended September 30, 2005, the principal components of other expense, net, were primarily impairment charges on certain marketable securities ($4.6 million), realized losses on sales of marketable securities ($1.7 million), offset by a partial payment on a loan that had previously been written off ($2.5 million).

For the nine months ended September 30, 2006, the principal components of other expense, net, were primarily minority interest expense ($6.1 million), legal settlements ($4.0 million), realized losses on marketable securities ($2.4 million), impairment charges on certain marketable securities ($5.0 million) and hedge ineffectiveness ($1.0 million), offset by gains related to foreign currency translation adjustments ($4.7 million). For the nine months ended September 30, 2005, the principal components of other expense, net, were primarily impairment charges on certain marketable securities ($16.9 million), foreign currency translation adjustment loss ($7.8 million), loan

impairment ($2.3 million), realized losses on investments ($3.0 million), offset by gains related to hedge ineffectiveness ($1.0 million) and repayment related to a previously written off loan ($2.5 million).

9. Unconsolidated Joint Business

Revenues from unconsolidated joint business arrangements consist of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Copromotion profits	$ 138,597	$ 129,009	$ 405,650	$ 385,843
Reimbursement of selling and development expenses	13,756	10,807	45,658	35,756
Royalty revenue on sales of RITUXAN outside the U.S.	51,467	41,781	141,988	105,385
	$ 203,820	$ 181,597	$ 593,296	$ 526,984

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.

Under the amended and restated collaboration agreement of June 2003, we will receive lower royalty percentage of revenue from Genentech on sales by Roche and Zenyaku of any new anti-CD20 products, as compared to royalty percentage of revenue received 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.

10. 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 of Portfolio Strategy, and Thomas J. Bucknum, our former General Counsel. We 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 March 9, 2005, two purported shareholder derivative actions, captioned Carmona v. Mullen, et al. ("Carmona") and Fink v. Mullen, et al. ("Fink"), were brought in the Superior Court of the State of California, County of San Diego (the "California Court"), on our behalf, against us as nominal defendant, our Board of Directors, Peter N. Kellogg, our Chief Financial Officer, and Thomas J. Bucknum, our former General Counsel. The California court consolidated the Carmona and Fink cases. The plaintiffs derivatively claim breach of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment against all defendants. The plaintiffs also derivatively claim insider selling in violation of California Corporations Code § 25402 and breach of fiduciary duty and misappropriation of information against certain defendants who sold our securities during the period of February 18, 2004 to the date of the complaints. The plaintiffs seek unspecified damages, treble damages for the purported insider trading in violation of California Corporate Code § 25402, equitable relief including restriction of the defendants' trading proceeds or other assets, restitution, disgorgement and costs, including attorneys' fees and expenses. On May 9, 2006, final judgment was entered in favor of the

defendants. On July 17, 2006, Plaintiffs filed a notice of appeal in the California Court to the Court of Appeal, Fourth Appellate District, Division 1. These purported derivative actions do not seek affirmative relief from the Company. We believe the plaintiffs' claims lack merit and intend to litigate the dispute vigorously. We are currently unable to determine whether resolution of this matter will have a material adverse impact on our financial position or results of operations, or reasonably estimate the amount of the loss, if any, that may result from resolution of this matter.

On April 21, 2005, we received a formal order of investigation from the Boston District Office of the SEC. The SEC is investigating whether any violations of the federal securities laws occurred in connection with the suspension of marketing and commercial distribution of TYSABRI. We continue to cooperate fully with the SEC in this investigation. We are unable to predict the outcome of this investigation or the timing of its resolution at this time.

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 are cooperating 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. 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 the County of Erie, County of Nassau, County of Oswego and County of Schenectady cases, are the subject of a Consolidated Complaint (the "Consolidated Complaint"), which was filed on June 15, 2005 in U.S. District Court for the District of Massachusetts in Multi-District Litigation No. 1456. The County of Nassau, which originally filed its complaint on November 24, 2004, filed an amended complaint on March 24, 2005 and that case is also pending in the U.S. District Court for the District of Massachusetts. On October 11, 2006, we, along with the other defendants, removed the complaints filed by the County of Erie, the County of Oswego and the County of Schenectady to the U.S. District Court for the Western District of New York and the Northern District of New York. We anticipate the County of Erie, the County of Oswego, and the County of Schenectady to file motions to remand the complaints back to the Supreme Court of the State of New York. All of the complaints allege that the defendants fraudulently reported the Average Wholesale Price for certain drugs for which Medicaid provides reimbursement, also referred to as Covered Drugs; 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; provided financing incentives to providers to over-prescribe Covered Drugs or to prescribe Covered Drugs in place of competing drugs; and overcharged Medicaid for illegally inflated Covered Drugs reimbursements. 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 Consolidated Complaint and the County of Nassau complaint allege 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 entered into with the Secretary of Health and Human Services, and excluded from their reporting certain drugs offered at discounts and other rebates that would have reduced the "best price." We, along with the other defendants, have filed a motion to dismiss the Consolidated Complaint and the complaints by the County of Nassau and County of Erie. These motions are currently pending. We intend to defend ourselves 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.

We, along with several other major pharmaceutical and biotechnology companies, were 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 on December 6, 2005. The complaint alleges that the defendants fraudulently reported the Average

Wholesale Price for certain drugs covered by the State of Arizona's Medicare and Medicaid programs, and marketed these drugs to providers based on the providers' ability to collect inflated payments from the government and other third-party payors. The complaint alleges violations of Arizona state law based on consumer fraud and racketeering. The defendants have removed this case to federal court and the Joint Panel on Multi-District Litigation has transferred the case to Multi-District Litigation No. 1456 pending in the U.S. District Court for the District of Massachusetts. The Attorney General of Arizona has moved to remand the case back to the Superior Court for the State of Arizona, and this motion is currently pending. 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 for the District of Maine. The lawsuit was filed by a former employee of our co-defendant Genentech pursuant to the False Claims Act, 31 U.S.C. § 3729 et seq. Prior to serving the lawsuit on the defendants, the plaintiff furnished it to the U.S. government. On December 20, 2005, the U.S. government elected not to intervene. 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. 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 February 28, 2006, the FDA approved the sBLA for use of RITUXAN, in combination with methotrexate, for reducing signs and symptoms in adult patients with moderately-to-severely active RA who have had an inadequate response to one or more TNF antagonist therapies.

On February 24, 2006, a purported customer of TYSABRI in Louisiana commenced a Petition for Redhibition in the U.S. District Court for the Eastern District of Louisiana, against Biogen Idec and Elan, captioned as Jill Czapla v. Biogen Idec and Elan Pharmaceuticals, Civil Action No. 06-0945. The parties filed a stipulation of dismissal with prejudice, which the court entered on September 15, 2006. The disposition of this matter did not have a material adverse effect on our business or financial condition.

In addition, we are involved in certain other legal proceedings generally incidental to our normal business activities. While the outcome of any of these proceedings cannot be accurately predicted, we do not believe the ultimate resolution of any of these existing matters would have a material adverse effect on our business or financial condition.

11. Segment Information

We operate in one segment, which is the business of development, manufacturing and commercialization of novel therapeutics for human health care. Our chief operating decision-makers review our operating results on an aggregate basis and manage our operations as a single operating segment. We currently have five products: AVONEX for the treatment of relapsing forms of MS, RITUXAN for the treatment of certain B-cell non-Hodgkin's lymphomas, or NHLs, and RA, ZEVALIN for the treatment of a certain B-cell NHLs, FUMADERM for the treatment of psoriasis, and TYSABRI for treatment of relapsing forms of MS. We also receive revenues from royalties on sales by our licensees of a number of products covered under patents that we control including sales of RITUXAN outside the U.S.

12. Guarantees and Contingency

We enter into indemnification provisions under our agreements with other companies in the ordinary course of business, typically with business partners, contractors, clinical sites and customers. Under these provisions, we generally indemnify and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of our activities. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments we could be required to make under these indemnification provisions is unlimited. However, to date we have not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. As a result, the estimated fair value of these agreements is minimal. Accordingly, we have no liabilities recorded for guarantees relating to these agreements as of September 30, 2006.

In connection with the relocation from leased facilities to our research and corporate campus in San Diego, California, we entered into a lease assignment, in January 2005, with Tanox West, Inc., or Tanox, for a manufacturing facility in San Diego for which we have outstanding lease obligations through September 2008. Under the lease assignment, Tanox was assigned all of our rights, title, and interest in the amended lease and assumed all of the terms, covenants, conditions and obligations required to be kept, performed and fulfilled under the amended lease, including the making of all payments under the amended lease. However, if Tanox were to fail to perform under the lease assignment we would be responsible for all obligations under the amended lease through September 2008. At September 30, 2006, our estimate of the maximum potential of future payments under the amended lease through September 2008 is $9.9 million. Under the lease assignment, Tanox has agreed to indemnify and hold us harmless from and against any and all claims, proceedings and demands and all costs, expenses and liabilities arising out of their performance or failure to perform under the lease assignment.

13. Impairment of Long-Lived Assets

As of March 31, 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, and determined that we would no longer proceed with the fill-finish component of the large-scale biological manufacturing facility. As a result, in the first quarter of 2005, we recorded an impairment charge to facility impairments and loss on sale of approximately $6.2 million of engineering costs related to the fill-finish component that had previously been capitalized.

In February 2006, we sold our clinical manufacturing facility, known as NICO, in Oceanside, California to Genentech. The assets associated with the facility were included in assets held for sale on our consolidated balance sheet as of December 31, 2005. Total consideration was $29.0 million. In the third and fourth quarters of 2005, we recorded impairment charges of $12.9 million and $15.1 million, respectively, for a total charge of $28.0 million to reduce the carrying value of NICO to its net realizable value. No additional loss resulted from completion of the sale.

In June 2005, we sold our large-scale biologics manufacturing facility in Oceanside, California, known as NIMO, along with approximately 60 acres of real property located in Oceanside, California upon which NIMO is located, together with improvements, related property rights, and certain personal property intangibles and contracts at or related to the real property. Total consideration for the purchase was $408.1 million. For the three and nine months ended September 30, 2005, the loss from this transaction was $7.7 million and $83.3 million, respectively, which consisted primarily of the write-down of NIMO to net selling price, sales and transfer taxes, and other associated transaction costs.

14. Severance and Other Restructuring Costs

In accordance with our comprehensive strategic plan in 2005, we recorded $31.4 million in restructuring charges, which consisted primarily of severance and other employee termination costs, including health benefits, outplacements, and bonuses. Other costs of $3.1 million included write-downs of certain research assets that will no longer be utilized, consulting costs in connection with the restructuring effort, and costs related to the acceleration of restricted stock, offset by the reversal of previously recognized compensation due to unvested restricted stock cancellations. Additionally, as discussed in Note 2, Acquisitions and Collaboration Agreements, approximately $1.2 million in severance costs were incurred in connection with the acquisition of Conforma in the second quarter of 2006. Such costs are included in the table below.

The remaining costs at September 30, 2006 are included in accrued expenses and other on our consolidated balance sheet. The components of the charges are as follows (in thousands):

	Remaining Liability at December 31, 2005	Costs Incurred During 2006	Paid/Settled through September 30, 2006	Remaining Liability at September 30, 2006
Severance and employee termination costs	$ 17,426	$ 1,947	$ (13,344)	$ 6,029
Other costs	31	84	(56)	59
Total	$ 17,457	$ 2,031	$ (13,400)	$ 6,088

Of the $2.0 million of costs incurred year to date, none were incurred during the quarter ending September 30, 2006. Of the $13.4 million of costs paid year to date, $1.4 million was paid during the quarter.

15. New Accounting Pronouncements

In February 2006, the FASB issued FSP No. FAS 123(R) — 4, *Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event*. This FSP addresses the classification of options and similar instruments issued as employee compensation that allow for cash settlement upon the occurrence of a contingent event. The guidance in this FSP amends SFAS 123(R), so that a cash settlement feature that can be exercised only upon the occurrence of a contingent event that is outside the employee's control does not require the option or similar instrument to be classified as a liability, unless it becomes probable that the event will occur. This FSP is effective in the first quarter of 2006, the same period we adopted SFAS 123(R). This FSP has not had any impact on our results of operations for the nine months ended September 30, 2006, nor do we expect it to have a significant impact in future periods.

In November 2004, the FASB issued SFAS 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*, which amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 were effective for inventory costs incurred during our fiscal year beginning on January 1, 2006. We did not experience a significant impact on our results of operations in the third quarter of 2006 as a result of our adoption of SFAS 151. However, we may experience variability in future results of operations due to abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage).

In February 2006, the FASB issued SFAS 155, *Accounting for Certain Hybrid Financial Instruments*, or SFAS 155, which amends both SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS 155 allows the fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that would otherwise required bifurcation. SFAS 155 will be effective for fiscal years beginning after September 15, 2006. We do not expect this statement to have any impact on our results of operations.

On July 13, 2006, FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - - An Interpretation of FASB Statement No. 109*, was issued. 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 a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition and is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of this standard on our financial statements.

On September 6, 2006, FASB Statement No 157, *Fair Value Measurements*, or SFAS 157, was issued. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact of this standard on our financial statements.

On September 6, 2006, FASB Statement No 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of SASB Statements No. 87, 88, 106, and 132(R)*, or FASB 158, was issued. This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. We do not expect this statement to have a material impact on our financial statements.

On September 13, 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*, or SAB 108. SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for the purposes of determining whether the current year's financial statements are materially misstated. SAB 108 becomes effective for accounting years ending after November 15, 2006. We do not expect this statement to have a material impact on our results of operations.

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 also 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.

Overview

Biogen Idec creates new standards of care in oncology, neurology and immunology. As a global leader in the development, manufacturing, and commercialization of novel therapies, we transform scientific discoveries into advances in human healthcare. We currently have five products:

•AVONEX® (interferon beta-1a). AVONEX is approved for the treatment of relapsing forms of multiple sclerosis, or MS.

•RITUXAN® (rituximab). RITUXAN is approved worldwide for the treatment of relapsed or refractory low-grade or follicular, CD20-positive, B-cell non-Hodgkin's lymphomas, or B-cell NHLs. In 2006, the U.S. Food and Drug Administration, or FDA, approved RITUXAN for three additional uses: (1) for the treatment of previously untreated patients with diffuse, large B-cell NHL in combination with anthracycline-based chemotherapy regimens (February), (2) for first-line treatment of previously-untreated patients with follicular NHL in combination with CVP (cyclophosphamide, vincristine and prednisolone) chemotherapy (September), and (3) for the treatment of low-grade NHL in patients with stable disease or who achieve a partial or complete response following first-line treatment with CVP chemotherapy (September). In addition, in February 2006, the FDA approved the supplemental Biologics License Application, or sBLA, for use of RITUXAN, in combination with methotrexate, for reducing signs and symptoms in adult patients with moderately-to-severely active rheumatoid arthritis, or RA, who have had an inadequate response to one or more TNF antagonist therapies. We are working with Genentech Inc., or Genentech, and F. Hoffman-La Roche Ltd., or Roche, on the development of RITUXAN in additional oncology and other indications.

•TYSABRI® (natalizumab). TYSABRI was approved by the FDA in November 2004 to treat relapsing forms of MS to reduce the frequency of clinical relapses. In February 2005, in consultation with the FDA, we and Elan Corporation plc, or Elan, voluntarily suspended the marketing and commercial distribution of TYSABRI, and we informed physicians that they should suspend dosing of TYSABRI until further notification. On June 5, 2006, the FDA approved a sBLA for the reintroduction of TYSABRI as a monotherapy treatment for relapsing forms of MS to slow the progression of disability and reduce the frequency of clinical relapses. On June 29, 2006, we and Elan announced that the European Agency for the Evaluation of Medicinal Products, or EMEA, had approved TYSABRI as a similar treatment. In July 2006, we began to ship TYSABRI in both the United States and Europe.

We market TYSABRI in a collaboration with Elan designed to share profits and losses on an equal basis. Under the terms of our agreement with Elan, we manufacture TYSABRI. In the U.S. we sell TYSABRI to Elan who distributes it and co-markets it in collaboration with us.

For sales to Elan in the U.S., we recognize revenue upon Elan's shipment of the product to the customer. The sales price to Elan in the U.S. is predetermined and is set on a quarterly basis, prospectively, in a manner that approximates an equal sharing of the collaboration gross margin between Elan and us. In addition to the sharing of gross margin, both parties share equally in the collaboration operating costs. Elan's reimbursement of our operating costs is reflected as a reduction in the reported amounts of the respective line items, generally research and development and selling, general and administrative costs, within our consolidated statement of operations.

For sales outside of the U.S., we market and distribute TYSABRI and record revenue at the time of product shipment. For these sales, both parties share equally in the net pre-tax profits of the collaboration. Additionally, we reimburse Elan for 100% of the royalty, distribution, selling and other costs Elan incurs on behalf of the collaboration. The equal sharing of the collaboration pre-tax profits and our reimbursement to Elan of their operating costs are reflected in the reported amounts of the respective line items, generally cost of product revenues, excluding amortization of acquired intangible assets and selling, general and administrative costs, within our consolidated statement of operations.

•FUMADERM® (dimethylfumarate and monoethylfumarate salts). FUMADERM was acquired with the purchase of Fumapharm AG, or Fumapharm, in June 2006 and is approved in Germany for the treatment of severe psoriasis. The product has been in commercial use in Germany for approximately eleven years.

•ZEVALIN® (ibritumomab tiuxetan). The ZEVALIN therapeutic regimen, which features ZEVALIN, is a radioimmunotherapy that is approved for the treatment of patients with relapsed or refractory low-grade, follicular, or transformed B-cell NHL, including patients with RITUXAN relapsed or refractory NHL. During the third quarter of 2006, we began executing a plan to divest our ZEVALIN product line.

Significant Events

The significant events that occurred during the nine months ended September 30, 2006 were as follows:

- Reintroduction of TYSABRI: TYSABRI was reapproved for sale in the United States and approved for sale in Europe in June 2006. No revenue was recorded during the six months ended June 30, 2006, but we began recording revenue from TYSABRI sales in the third quarter of 2006.
- Acquisition of Fumapharm: In June 2006, we completed the acquisition of Fumapharm. The most significant financial statement impact resulting from the purchase was the recognition of an acquired in-process research and development, or IPR&D, charge of approximately $207.4 million.
- Acquisition of Conforma Therapeutics Corporation, or Conforma: In May 2006, we completed the acquisition of Conforma. The most significant financial statement impact resulting from the purchase was the recognition of an IPR&D charge of approximately $123.1 million.
- Sale of AMEVIVE: In April 2006, we sold the worldwide rights to AMEVIVE, including inventory on-hand, to Astellas Pharma US, Inc., or Astellas. We will continue to manufacture AMEVIVE and supply this product to Astellas for a period of 11 years. The pre-tax gain on this sale was approximately $2.8 million and is being deferred and recognized over the period of the supply contract.
- Collaborations: During the third quarter of 2006 we entered into collaboration agreements with mondoBIOTECH AG, or mondo, Alnylam Pharmaceuticals, Inc., or Alnylam, and UCB, S.A., or UCB. Upfront payments made or payable under the collaboration agreements totaled $42.5 million, all of which have been expensed as research and development during the three months ended September 30, 2006.

Refer to Note 2, Acquisitions and Collaboration Agreements, in the accompanying consolidated financial statements for further discussion of the acquisitions and collaboration agreements.

Results of Operations

Revenues (in thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006		2005		2006		2005	
Product Revenues								
United States	$ 288,756	41%	$ 246,977	42%	$ 795,265	40%	$ 744,441	42%
Rest of world	186,340	27%	144,389	24%	522,431	27%	443,332	25%
Total Product Revenues	475,096	68%	391,366	66%	1,317,696	67%	1,187,773	67%
Unconsolidated joint business	203,820	29%	181,597	30%	593,296	30%	526,984	29%
Royalties	21,867	3%	23,117	4%	60,714	3%	71,600	4%
Corporate partner	2,709	0%	131	0%	3,002	0%	3,290	0%
Total revenues	$ 703,492	100%	$ 596,211	100%	$ 1,974,708	100%	$ 1,789,647	100%

Product Revenues (in thousands)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006		2005		2006		2005	
AVONEX	$ 445,156	94%	$ 374,708	96%	$ 1,267,961	96%	$ 1,130,082	95%
AMEVIVE	411	0%	11,631	3%	11,148	1%	36,104	3%
ZEVALIN	4,438	1%	5,223	1%	13,888	1%	16,734	2%
FUMADERM	6,437	1%	—	—	6,437	1%	—	—
TYSABRI	18,654	4%	(196)	0%	18,262	1%	4,853	0%
Total Product Sales	$ 475,096	100%	$ 391,366	100%	$ 1,317,696	100%	$ 1,187,773	100%

AVONEX

An analysis of the sales of AVONEX is as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006		2005		2006		2005	
AVONEX								
U.S.	$ 268,253	60%	$ 234,748	63%	$ 760,947	60%	$ 697,120	62%
Rest of World	176,903	40%	139,960	37%	507,014	40%	432,962	38%
Total AVONEX Sales	$ 445,156	100%	$ 374,708	100%	$ 1,267,961	100%	$ 1,130,082	100%

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, U.S. sales of AVONEX increased $33.5 million, or 14.3%, due, principally, to the impact of price increases and a reduction in discounts associated with a change in patient mix in connection with the introduction of the Medicare Part D prescription drug benefit, offset by slightly lower volume. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, U.S. sales of AVONEX increased by $63.8 million, or 9.2%, due to the impact of price increases and adjustments to rebate and discount levels, offset by slightly lower volume.

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, international sales of AVONEX increased $36.9 million, or 26.4%, primarily due to increases in volume. Foreign exchange accounted for a 4.2% increase in reported revenues; on a local currency basis, revenue increased 22.2%. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, international sales of AVONEX increased $74.1 million, or 17.1% due to increases in volume. Foreign exchange accounted for a 2.6% reduction in reported revenues. On a local currency basis, revenue increased 19.7%.

Product sales from AVONEX represented approximately 94% and 96% of our total product revenues for the three months ended September 30, 2006 and 2005, respectively. 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.

AMEVIVE

For the three and nine months ended September 30, 2006, AMEVIVE generated product sales of $0.4 million and $11.1 million, of which $0.2 million and $4.9 million was generated in the U.S. For the three and nine months ended September 30, 2005, AMEVIVE generated product sales of $11.6 million and $36.1 million, of which $7.9 million and $27.1 million was generated in the U.S. The decrease in current year amounts versus prior year amounts is due to the sale, in April 2006, of our worldwide rights and infrastructure related to sales, production, and marketing of AMEVIVE. Although we sold the rights to this product, we continue to report product revenues related to shipments made by certain of our overseas joint ventures.

ZEVALIN

For the three and nine months ended September 30, 2006, the decline in product sales of ZEVALIN versus the amounts for the comparable periods in the prior year is attributable to lower sales volumes in the U.S. Product sales from ZEVALIN represented approximately 1% of our total product revenues in the three months ended September 30, 2006 and 2005, respectively. We expect these sales to decline because of the anticipated divestiture of this product line.

FUMADERM

We began recognizing revenue on FUMADERM, an oral systemic treatment of severe psoriasis, upon completion of our acquisition of Fumapharm in June 2006. Revenue during the three and nine months ended September 30, 2006, totaled $6.4 million.

TYSABRI

An analysis of the sales of TYSABRI is as follows (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006		2005		2006		2005	
TYSABRI								
U.S.	$ 15,910	85%	$ (196)	100%	$ 15,518	85%	$ 4,853	100%
Rest of World	2,744	15%	—	—%	2,744	15%	—	—%
Total TYSABRI Sales	$ 18,654	100%	$ (196)	100%	$ 18,262	100%	$ 4,853	100%

In November 2004, TYSABRI was approved by the FDA as a treatment for relapsing forms of MS to reduce the frequency of clinical relapses. In February 2005, in consultation with the FDA, we and Elan voluntarily suspended the marketing and commercial distribution of TYSABRI, and we informed physicians that they should suspend dosing of TYSABRI until further notification. In the U.S., prior to the suspension, we sold TYSABRI to Elan who then distributed TYSABRI to third party distributors and other customers. In the first quarter of 2005, our revenue associated with sales of TYSABRI was $5.9 million, which consisted of revenue from sales that occurred prior to our voluntary suspension. Sales from TYSABRI represent 1% of our total revenues in the first quarter of 2005. As of March 31, 2005, and in connection with the voluntary suspension of TYSABRI, we recorded an allowance for sales returns of approximately $9.0 million related to product sold in the fourth quarter of 2004 and the first quarter of 2005, which represented our best estimate of expected returns from our customers.

On June 5, 2006, the FDA approved a sBLA for the reintroduction of TYSABRI as a monotherapy treatment for relapsing forms of MS to slow the progression of disability and reduce the frequency of clinical relapses. On June 29, 2006, we and Elan announced that the European Agency for the Evaluation of Medicinal Products, or EMEA,

had approved TYSABRI as a similar treatment. In July 2006, we began to ship TYSABRI in both the United States and Europe. The revenue for such shipments was $2.0 million and $2.7 million in the U.S. and Europe, respectively. The revenue is recognized in the U.S. upon shipment of the product by Elan to the customer.

Under our agreement with Elan, we manufacture TYSABRI and, in the U.S. sell TYSABRI to Elan who then distributes TYSABRI to third party distributors. Prior to the suspension of TYSABRI in 2005, we shipped product to Elan and recognized revenue in accordance with the policy described above. Accordingly, as of March 31, 2005, we deferred $14.0 million in revenue from Elan related to sales of TYSABRI that had not yet been shipped by Elan. This amount was paid by Elan during 2005 and was recognized as revenue during the third quarter of 2006 as the uncertainty about the ultimate disposition of the product was eliminated during the period.

See also the risks affecting revenues described in “Risk Factors — Our Revenues Rely Significantly on a Limited Number of Products” and “Risk Factors — Safety Issues with TYSABRI Could Significantly Affect our Growth.”

Reserves for discounts and allowances

At September 30, 2006, our allowance for product returns was $15.9 million. This is a component of our total allowance for returns, rebates, discounts, and other of $71.2 million. At September 30, 2006, our total allowance for returns, rebates, discounts, and other was approximately 5% of total current assets and less than 1% of total assets. On a quarterly basis, we analyze our estimates for expected expense for returns, rebates, discounts and other allowances and adjustments, based primarily on historical experience updated for changes in facts and circumstances, as appropriate.

For the three and nine months ended September 30, 2006, we recorded $58.5 million and $180.4 million, respectively, in our consolidated statements of income related to sales returns and allowances, rebates, discounts, and other allowances, compared to $59.1 million and $167.0 million, respectively, for the comparable periods in 2005. Product returns, which is a component of allowances for returns, rebates, discounts, and other allowances, were $8.7 million and $30.7 million for the three and nine months ended September 30, 2006, respectively, compared to $4.0 million and $20.1 million for the comparable periods in 2005. In the three and nine months ended September 30, 2006, the amount of product returns was approximately 1.8% and 2.3%, respectively, of product revenue for all our products, compared to 1.0% and 1.7%, respectively, for the comparable periods in 2005.

During the three months ended June 30, 2006, we recorded an increase in our allowance for expired products of $12.3 million to correct for prior period errors. This increase in the allowance was recorded through an out of period reduction in net product revenue of $6.9 million and an increase in goodwill of $5.4 million. We identified and quantified the errors through an analysis of the historical rate for returns based on volumes of returns and the amount of credit granted to the returning distributors in past periods. At the time of merger with Biogen Inc. in 2003, Biogen Inc. had understated its allowance for expired product by an estimated $5.4 million due to an incorrect methodology applied in calculating its reserve balance. Had we identified this error at the time of the merger, the recorded goodwill would have been approximately $5.4 million higher than has been previously reflected. This methodology was in error because it did not use known information in determining critical assumptions used in the basis of calculation. Our application of this incorrect methodology in the post-merger period resulted in understating this reserve by an additional $6.9 million. In all cases, the correctly calculated rate of return is less than one percent of related gross product revenues. We have determined that, in accordance with APB 28, *Interim Financial Reporting* paragraph 29, this out of period correction is not material to the current year. Additionally, we have determined that the error at the merger date is not material to any prior period balance sheet amounts and the error in the post-merger period is not material to any prior period reported amounts.

Unconsolidated Joint Business Revenue

RITUXAN is currently marketed and sold worldwide for the treatment of certain B-cell NHLs. In 2006, the U.S. Food and Drug Administration, or FDA, approved RITUXAN for three additional uses: (1) to treat previously untreated patients with diffuse, large B-cell NHL in combination with anthracycline-based chemotherapy regimens (February), (2) for first-line treatment of previously-untreated patients with follicular NHL in combination with CVP

(cyclophosphamide, vincristine and prednisolone) chemotherapy (September), and (3) for the treatment of low-grade NHL in patients with stable disease or who achieve a partial or complete response following first-line treatment with CVP chemotherapy (September). In addition, in February 2006, the FDA approved the sBLA for use of RITUXAN, in combination with methotrexate, for reducing signs and symptoms in adult patients with moderately-to-severely active RA who have had an inadequate response to one or more TNF antagonist therapies. We copromote RITUXAN in the U.S. in collaboration with Genentech under a collaboration agreement between the parties. Under the collaboration agreement, we granted Genentech a worldwide license to develop, commercialize and market RITUXAN in multiple indications. In exchange for these worldwide rights, we have copromotion rights in the U.S. and a contractual arrangement under which Genentech shares a portion of the pretax U.S. copromotion profits of RITUXAN with us. This collaboration was created through a contractual arrangement not through a joint venture or other legal entity. In June 2003, we amended and restated our collaboration agreement with Genentech to include the development and commercialization of one or more anti-CD20 antibodies targeting B-cell disorders, in addition to RITUXAN, for a broad range of indications.

In the U.S., we contribute resources to selling and the continued development of RITUXAN. Genentech is responsible for worldwide manufacturing of RITUXAN. Genentech also is responsible for the primary support functions for the commercialization of RITUXAN in the U.S. including selling and marketing, customer service, order entry, distribution, shipping and billing. Genentech also incurs the majority of continuing development costs for RITUXAN. Under the arrangement, we have a limited sales force as well as limited development activity.

Under the terms of separate sublicense agreements between Genentech and Roche, commercialization of RITUXAN outside the U.S. is the responsibility of Roche, except in Japan where Roche copromotes RITUXAN in collaboration with Zenyaku Kogyo Co. Ltd., or Zenyaku. There is no direct contractual arrangement between us and Roche or Zenyaku.

Revenue from unconsolidated joint business consists of our share of pretax copromotion profits, which is calculated by Genentech, and includes reimbursement of our RITUXAN-related sales force and development expenses, and royalty revenue from sales of RITUXAN outside the U.S. by Roche and Zenyaku. Copromotion profit consists of U.S. sales of RITUXAN to third-party customers net of discounts and allowances and less the cost to manufacture RITUXAN, third-party royalty expenses, distribution, selling and marketing expenses, and joint development expenses incurred by Genentech and us.

Under the amended and restated collaboration agreement, our current pretax copromotion profit-sharing formula for the U.S., is as follows:

Copromotion Operating Profits	Biogen Idec's Share of Copromotion Profits
First $50.0 million	30%
Greater than $50.0 million	40%

In both 2006 and 2005, 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:

Copromotion Operating Profits	New Anti-CD20 U.S. Gross Product Sales	Biogen Idec's Share of Copromotion Profits
First $50.0 million (1)	N/A	30%
Greater than $50.0 million	Until such sales exceed $150.0 million in any calendar year(2)	38%
	Or	
	After such sales exceed $150.0 million in any calendar year and until such sales exceed $350.0 million in any calendar year (3)	35%
	Or	
	After such sales exceed $350.0 million in any calendar year (4)	30%

(1) – not applicable in the calendar year the first new anti-CD20 product is approved if $50.0 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 $150.0 million new product sales level is achieved.

(3) – if $150.0 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 $150.0 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 $50.0 million in copromotion operating profits in such years) will be 35% until the $350.0 million new product sales level is achieved.

(4) – if $350.0 million in new product sales is achieved in the same calendar year that $150.0 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 $150.0 million and $350.0 million new product sales levels are achieved). Once the $350.0 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%.

Copromotion profits consist of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Product revenues, net	$ 508,900	$ 456,228	$ 1,511,247	$ 1,347,125
Costs and expenses	162,407	133,706	484,621	370,020
Copromotion profits	$ 346,493	$ 322,522	$ 1,026,626	$ 977,105
Biogen Idec's share of copromotion profits	$ 138,597	$ 129,009	$ 405,650	$ 385,843

The increase in the amount of our share of copromotion profits for the three and nine months ended September 30, 2006 was primarily due to higher sales for RITUXAN.

Revenues from unconsolidated joint business consist of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Copromotion profits	$ 138,597	$ 129,009	$ 405,650	$ 385,843
Reimbursement of selling and development expenses	13,756	10,807	45,658	35,756
Royalty revenue on sales of RITUXAN outside the U.S.	51,467	41,781	141,988	105,385
Total unconsolidated joint business revenue	$ 203,820	$ 181,597	$ 593,296	$ 526,984

Reimbursement of selling and development expenses increased for both the three and nine months of 2006 versus 2005, primarily due to the expansion of the oncology sales force and development costs we incurred mainly related to the development of RITUXAN for RA.

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. Royalty revenues from sales of RITUXAN outside the U.S. during the three and nine months ended September 30, 2006 increased approximately $9.7 million and $36.6 million from the comparable periods in 2005, which is primarily related to increased penetration of the market. An $11.3

million royalty credit was claimed by Genentech in the three months ended March 31, 2005, which we had previously settled and accrued and which was paid during the third quarter of 2006.

Under the amended and restated collaboration agreement, we will receive lower royalty percentage of revenue from Genentech on sales by Roche and Zenyaku of new anti-CD20 products, as compared to royalty percentage of revenue received 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.

Total unconsolidated joint business revenue represented 29% and 30% of our total revenues for the three and nine months ended September 30, 2006, respectively, as compared to 30% and 29% for the comparable periods in 2005, respectively.

Royalty Revenue

We receive revenues from royalties on sales by our licensees of a number of products covered under patents that we control. Except for our royalty revenues on sales of RITUXAN outside the U.S., which are included in revenues from "Unconsolidated joint business," for the three and nine months ended September 30, 2006, we earned approximately $21.9 million and $60.7 million in royalty revenues, respectively, as compared to approximately $23.1 million and $71.6 million in the comparable periods of 2005. Royalty revenues represent approximately 3.1% of total revenues for the three and nine months ended September 30, 2006 compared to 3.9% and 4.0% of total revenues for the three and nine months ended September 30, 2005, respectively. The declines from prior year for the three and nine months ended September 30, 2006, are due to lower revenue of licensed products by our licensees.

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

Corporate partner revenues consist of contract revenues and license fees. Corporate partner revenues totaled $2.7 million and $3.0 million for the three and nine months ended September 30, 2006, which represented less than 1% of total revenues for the three and nine months ended September 30, 2006. Corporate partner revenue totaled $0.1 million and $3.3 million in the three and nine months ended September 30, 2005, representing less than 1% of total revenues for both periods. The increase for the third quarter of 2006 over the comparable period of the prior year was due to receipt of milestone payments for work completed and payments for transition services and tests.

Cost of Product Revenues, excluding Amortization of Intangibles

Cost of product revenues by product are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Product	2006	2005	2006	2005
AVONEX	$ 58,812	$ 56,663	$ 176,546	$ 166,667
AMEVIVE	10	17,782	9,817	46,343
ZEVALIN	1,698	13,857	14,353	20,194
FUMADERM	3,488	—	3,488	—
TYSABRI	1,734	56	4,991	23,879
Cost of product revenues, excluding amortization of intangibles	$ 65,742	$ 88,358	$ 209,195	$ 257,083

AVONEX

The cost of product revenue for AVONEX increased $2.1 million, or 3.8%, from $56.7 million for the three months ended September 30, 2005 to $58.8 million for the three months ended September 30, 2006, in line with

increased sales level but slightly lower as a percent of revenue due to relatively lower failure of quality specifications. The cost of product revenue for AVONEX increased $9.9 million, or 5.9%, from $166.7 million for the nine months ended September 30, 2005 to $176.5 million for the nine months ended September 30, 2006, in line with increased sales level.

AMEVIVE

The cost of product revenue for AMEVIVE decreased $17.8 million for the three months ended September 30, 2005 to a negligible amount for the three months ended September 30, 2006, due to the disposition of our worldwide rights in April 2006. The cost of product revenue for AMEVIVE decreased $36.5 million, or 78.8%, from $46.3 million for the nine months ended September 30, 2005 to $9.8 million for the nine months ended September 30, 2006, also reflecting the decline in sales levels associated with the disposition of our worldwide rights in April 2006.

ZEVALIN

The cost of product revenue for ZEVALIN decreased $12.2 million, or 87.8%, from $13.9 million for the three months ended September 30, 2005 to $1.7 million for the three months ended September 30, 2006, primarily due to write-offs ($6.4 million) and patent amortization ($6.1 million) in 2005. The cost of product revenue for ZEVALIN decreased $5.8 million, or 28.9%, from $20.2 million for the nine months ended September 30, 2005 to $14.4 million for the nine months ended September 30, 2006, due to the curtailing of production while the decision to divest the product line was pursued.

FUMADERM

FUMADERM is a new product being sold by us for the first time during the third quarter of 2006. Cost of product revenues for FUMADERM was $3.5 million, which includes the impact of an inventory “step up” adjustment of $2.9 million in connection with purchase accounting.

TYSABRI

Sales of TYSABRI resumed in July 2006 following FDA approval to reintroduce the product for certain indications. Because of the suspension in 2005, no product was shipped during the quarter ended September 2005. The cost of product revenues for the nine months ended September 30, 2005, is primarily due to write-offs associated with the suspension of TYSABRI in 2005. The cost of goods sold in 2006 represents, principally, the cost of shipments made during the quarter.

We capitalize inventory costs associated with our products prior to regulatory approval, when, based on management’s judgment, future commercialization is considered probable and the future economic benefit is expected to be realized. In the first quarter of 2006, in light of expectations of the re-introduction of TYSABRI, we began a new manufacturing campaign. TYSABRI currently has an approved shelf life of up to 48 months. Based on our sales forecasts for TYSABRI, we fully expect the carrying value of the TYSABRI inventory to be realized.

As of September 30, 2006, $31.6 million and $0.3 million of TYSABRI inventory value is included in work in process and finished goods, respectively. In addition, we have product on hand that was expensed due to the uncertainties described above but which is available to fill future orders. The approximate cost of such product, based on its cost of manufacture, was $40.6 million. As we sell TYSABRI, we will recognize lower than normal cost of product revenues and, therefore, higher margins, in the near future as we ship the inventory that was written off.

We manufactured TYSABRI during the first and second quarter of 2005 and completed our scheduled production of TYSABRI during July 2005. Because of the uncertain future commercial availability of TYSABRI at the time, and our inability to predict to the required degree of certainty that TYSABRI inventory would be realized in commercial sales prior to the expiration of its shelf life, we expensed $23.2 million of costs related to the manufacture of TYSABRI in the first quarter of 2005 to cost of product revenues. At the time of production, the inventory was believed to be commercially saleable. During 2005, as we worked with clinical investigators to understand the possible risks of PML, we charged the costs related to the manufacture of TYSABRI to research and

development expense. As a result, we expensed $21.5 million related to the manufacture of TYSABRI to research and development expense during 2005. As of December 31, 2005, there was no carrying value of TYSABRI inventory on our consolidated balance sheet.

Valuation of Inventory

We wrote-down the following unmarketable inventory, which was charged to cost of product revenues in the respective periods (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
AVONEX	$ 630	$ 583	$ 4,083	$ 10,128
AMEVIVE	—	9,059	2,433	23,346
ZEVALIN	110	6,460	3,287	9,040
TYSABRI	—	—	2,805	23,200
	$ 740	$ 16,102	$ 12,608	$ 65,714

The write-downs for the three and nine months ended September 30, 2006 and 2005, respectively, were the result of the following (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
New components for alternative presentations	$ —	$ —	$ —	$ 8,417
Failed quality specifications	384	4,537	11,113	19,796
Excess and/or obsolescence	356	11,565	1,495	14,301
Costs for voluntary suspension of TYSABRI	—	—	—	23,200
	$ 740	$ 16,102	$ 12,608	$ 65,714

Research and Development Expenses

Research and development expenses totaled $211.0 million and $227.0 million in the three months ended September 30, 2006 and 2005, respectively, a decrease of $16.0 million, or 7.0%. The decrease principally reflects, i) reductions in salary and benefit expense arising from headcount reductions in 2005 (approximately $21 million), ii) lower expenses for clinical trials related to TYSABRI and AMEVIVE (approximately $12 million), iii) lower expenses related to collaborations (approximately $12 million), offset by iv) an increase in manufacturing expense for products used in clinical trials (approximately $12 million), and v) the impact of share-based compensation (approximately $15 million). For the three months ended September 30, 2006, share-based compensation expense included in research and development, computed under APB 25, was $8.9 million.

Research and development expenses totaled $518.9 million and $579.4 million in the nine months ended September 30, 2006 and 2005, respectively, a decrease of $60.5 million, or 10.4%. The decrease principally reflects, i) reductions in salary and benefit expense arising from headcount reductions in 2005 (approximately $56 million), ii) lower expenses for clinical trials related to TYSABRI and AMEVIVE (approximately $36 million), iii) the elimination of costs related to the NIMO facility that was sold in the second quarter of 2005 (approximately $17 million), offset by iv) the impact of share-based compensation, (approximately $43 million). For the nine months ended September 30, 2006, share-based compensation expense included in research and development, computed under APB 25 was $25.7 million.

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

During the second quarter ended June 30, 2006, we recorded expense related to IPR&D of $330.5 million. Of this amount, $207.4 million related to acquired IPR&D from the acquisition of Fumapharm and $123.1 million related to acquired IPR&D from the acquisition of Conforma. See Note 2 of the consolidated financial statements, Acquisitions and Collaboration Agreements, for details on future expenditures with respect to the IPR&D.

Since completing acquisitions in the second quarter of 2006, we spent approximately $4 million related to the Fumapharm IPR&D, and $2 million on the Conforma IPR&D.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled $168.2 million for the three months ended September 30, 2006 compared to $161.4 million in the comparable period in 2005, an increase of $6.8 million, or 4.2%. The increase reflects higher overall costs in sales and marketing activities from TYSABRI and RITUXAN in RA, offset by lower expenses for AMEVIVE. The impact of share-based compensation charges was offset by the impact of a charge in the prior year to the write-off of prepaid expenses associated with an arrangement in Canada related to Zevalin.

For the three months ended September 30, 2006, approximately $23.9 million of share-based compensation is included in selling, general and administrative expenses in connection with the adoption of SFAS 123(R) in 2006. For the three months ended September 30, 2006, share-based compensation expense included in selling, general and administrative expense, computed under APB 25 was $15.5 million.

Selling, general and administrative expenses totaled $492.8 million for the nine months ended September 30, 2006 compared to $475.6 million in the comparable period in 2005, an increase of $17.2 million, or 3.6%. The increase reflects higher overall costs in sales and marketing activities from TYSABRI and RITUXAN in RA, offset by slightly lower expenses for AMEVIVE. The impact of share-based compensation charges was offset by the impact of a charge in the prior year related to the write-off of prepaid expenses associated with an arrangement in Canada related to Zevalin.

For the nine months ended September 30, 2006, approximately $66.6 million of share-based compensation is included in selling, general and administrative expenses in connection with the adoption of FAS 123(R) in 2006. For the nine months ended September 30, 2006, share-based compensation expense included in selling, general and administrative expense, computed under APB 25 was $41.1 million.

We anticipate that total selling, general, and administrative expenses in 2006 will continue to be higher than 2005 due to sales and marketing and other general and administrative expenses to support AVONEX and TYSABRI.

Severance and Other Restructuring Costs

In accordance with our comprehensive strategic plan in 2005, we recorded $31.4 million in restructuring charges, which consisted primarily of severance and other employee termination costs, including health benefits, outplacements, and bonuses. Other costs of $3.1 million included write-downs of certain research assets that will no longer be utilized, consulting costs in connection with the restructuring effort, and costs related to the acceleration of restricted stock, offset by the reversal of previously recognized compensation due to unvested restricted stock cancellations. Additionally, approximately $1.2 million in severance costs was incurred in connection with the acquisition of Conforma in the second quarter of 2006. Such costs are included in the table below.

The remaining costs at September 30, 2006 are included in accrued expenses and other on our consolidated balance sheet. The components of the charges are as follows (in thousands):

	Remaining Liability at December 31, 2005	Costs Incurred During 2006	Paid/Settled through September 30, 2006	Remaining Liability at September 30, 2006
Severance and employee termination costs	$ 17,426	$ 1,947	$ (13,344)	$ 6,029
Other costs	31	84	(56)	59
Total	$ 17,457	$ 2,031	$ (13,400)	$ 6,088

Of the $2.0 million of costs incurred year to date, none were incurred during the quarter ending September 30, 2006. Of the $13.4 million of costs paid year to date, $1.4 million was paid during the quarter.

We may have additional restructuring charges in future periods. The amount of those charges cannot be determined at this time.

Amortization of Intangible Assets

For the three and nine months ended September 30, 2006, we recorded amortization expense of $60.0 million and $207.0 million, compared to $76.0 million and $228.7 million for the comparable period in 2005 related to intangible assets. The decrease in the three and nine months ended September 30, 2006, relates principally to a change in estimate in the calculation of economic consumption for core technology. Specifically, during the three months ended September 30, 2006, in connection with the establishment of our annual Long Range Plan, we reforecasted the economic consumption of AVONEX, which caused us, based on our policy, to calculate amortization under the straight-line method as it was greater than the amount computed under the economic use method beginning in the three months ended September 30, 2006. The amount of amortization recorded for core technology in the three months ended September 30, 2006 was $46.7 million as compared to the $56.1 million that was recognized in the three months ended September 30, 2005. The decrease in amortization expense also reflects the inclusion in the three months ended September 30, 2005, of a charge of $7.9 million related to the write-off of an intangible asset related to an international market.

We review our intangible assets for impairment periodically and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If future events or circumstances indicate that the carrying value of these assets may not be recoverable, we may be required to record additional charges to our results of operations.

Facility Impairments and Loss on Sale

Hillerod, Denmark

As of March 31, 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, and determined that we would no longer proceed with the fill-finish component of the large-scale biological manufacturing facility. As a result, in the first quarter of 2005, we recorded an impairment charge to facility impairments and loss on sale of approximately $6.2 million of engineering costs related to the fill-finish component that had previously been capitalized.

NIMO

In June 2005, we sold our large-scale biologics manufacturing facility in Oceanside, California, known as NIMO, along with approximately 60 acres of real property located in Oceanside, California upon which NIMO is located, together with improvements, related property rights, and certain personal property intangibles and contracts at or related to the real property. Total consideration for the purchase was $408.1 million. For the three and nine months ended September 30, 2005, the loss from this transaction was $7.7 million and $83.3 million, respectively, which consisted primarily of the write-down of NIMO to net selling price, sales and transfer taxes, and other associated transaction costs.

NICO

In February 2006, we sold our NICO clinical manufacturing facility in Oceanside, California, known as NICO. The assets associated with the facility were included in assets held for sale on our consolidated balance sheet as of December 31, 2005. Total consideration for the sale was $29.0 million. In the third and fourth quarters of 2005, we recorded impairment charges of $12.9 million and $15.1 million, respectively, for a total charge of $28.0 million to reduce the carrying value of NICO to its net realizable value. No additional loss resulted from the completion of the sale.

Certain reserve amounts of approximately $0.8 million established in connection with the sale were adjusted during 2006, resulting in credit amounts being reflected in our consolidated statement of operations for the nine months ended September 30, 2006.

Gain on Settlement of License Agreement

During the second quarter of 2006 a gain of $34.2 million was recognized coincident with the acquisition of Fumapharm in accordance with EITF 04-1, *Accounting for Preexisting Relationships between the Parties to a Business Combination.* The gain related to the settlement of a previous collaboration agreement between Fumapharm and us. The collaboration agreement in question had been entered into in October 2003 and required payments to Fumapharm of certain royalty amounts. The market rate for such payments was determined to have increased due, principally, to the increased technical feasibility of BG-12. The gain relates, principally, to the difference between the royalty rates at the time the agreement was entered into as compared to the rates at the time the agreement was effectively settled by virtue of our acquisition of Fumapharm.

Other Income (Expense), Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Interest income	$ 26,031	$ 16,530	$ 75,702	$ 44,636
Interest expense	(74)	(571)	(553)	(10,331)
Other expense, net	(3,638)	(4,767)	(12,359)	(25,987)
Total other income (expense), net	$ 22,319	$ 11,192	$ 62,790	$ 8,318

Interest income totaled $26.0 million and $75.7 million, respectively, for the three and nine months ended September 30, 2006 compared to $16.5 million and $44.6 million, respectively, for the comparable periods in 2005. The increase in interest income is primarily due to higher yields on our marketable securities portfolio as well as higher average cash balances. Interest income levels that may be achieved in the future are, in part, dependent upon market conditions.

Interest expense totaled $0.1 million and $0.6 million, respectively, for the three and nine months ended September 30, 2006 compared to $0.6 million and $10.3 million, respectively, for the comparable period of 2005. The decrease in interest expense was due, principally, to the repurchase of our senior notes in the second quarter of 2005.

Other expense, net, for the three months ended September 30, 2006 versus the prior year decreased $1.1 million, principally reflecting a $2.0 million decrease in losses on strategic investments, and a $1.1 million decrease in losses on security sales, offset by a $0.4 million increase in losses on foreign currency transaction adjustments, and a $2.0 million increase in minority interest expense. Other expense, net, for the nine months ended September 30, 2006 versus the prior year decreased $13.6 million, principally reflecting a $12.5 million increase in gains on foreign currency transaction adjustments and an $9.5 million decrease in losses on security sales, offset by a $6.1 million increase in minority interest expense, a $2.3 million increased loss on hedging contracts, and a $4.0 million increase in expense due to legal settlements.

Share-Based Payments

Our share-based compensation programs consist of share-based awards granted to employees including stock options, restricted stock, performance share units and restricted stock units, or "RSUs," as well as our employee stock purchase plan, or ESPP.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004) — *Share-Based Payment*, or SFAS 123(R). This Statement requires compensation cost relating to share-based awards to be recognized in the financial statements using a fair-value measurement method. Under the fair value method, the estimated fair value of awards is charged against income over the requisite service period, which is generally the vesting period. We selected the modified prospective method as prescribed in SFAS 123(R) and, therefore, prior periods were not restated. Under the modified prospective method, this Statement was applied to new awards granted in 2006, as well as to the unvested portion of previously granted equity-based awards for which the requisite service had not been rendered as of December 31, 2005.

The fair value of performance based stock units is based on the market price of our stock on the date of grant and assumes that the performance criteria will be met and the target payout level will be achieved. Compensation expense is adjusted for subsequent changes in the outcome of performance-related conditions until the vesting date. In the three and nine months ended September 30, 2006, we recorded share-based compensation expense and cost associated with the SFAS 123(R) adoption as follows (in thousands):

	Three months ended September 30, 2006			Nine months ended September 30, 2006		
	Stock options & ESPP	Restricted Stock and Restricted Stock Units	Total	Stock options & ESPP	Restricted Stock and Restricted Stock Units	Total
Research and development	$ 5,268	$ 9,379	$ 14,647	$ 16,636	$ 26,799	$ 43,435
Selling, general and administrative	7,788	16,144	23,932	24,587	42,042	66,629
Total	$ 13,056	$ 25,523	$ 38,579	$ 41,223	$ 68,841	$ 110,064
Pre-tax cumulative effect catch-up			—			(5,574)
Pre-tax effect of share-based compensation			$ 38,579			$ 104,490
Capitalized share-based payment costs			(698)			(2,431)
Share-based compensation expense			$ 37,881			$ 102,059

For the three and nine months ended September 30, 2006, we capitalized costs of $0.7 million and $2.4 million associated with share-based compensation to inventory and fixed assets.

In the third quarter of 2006, we recorded pre-tax share-based compensation expense associated with the SFAS 123(R) adoption and the restricted stock units of $37.9 million. In the nine months ended September 30, 2006, we recorded pre-tax share-based compensation expense of $102.1 million. This expense is net of a cumulative effect pre-tax adjustment of $5.6 million, or $3.8 million after-tax, resulting from the application of an estimated forfeiture rate for current and prior period unvested restricted stock awards.

For the current quarter, share-based compensation reduced diluted earnings per share by $0.08. For the nine months ended September 30, 2006, share-based compensation reduced diluted earnings per share by $0.21. See Note 6, Share-Based Payments, for prior period pro-forma data and additional discussion.

Income Tax Provision

Tax Rate

Our effective tax rate was 28.7% on pre-tax income for the three months ended September 30, 2006 and 66.2% on pre-tax income before the cumulative effect of accounting change, for the nine months ended September 30, 2006, compared to 16.0% and 30.4% for the comparable periods in 2005. Our effective tax rate for the periods ending September 30 differs from the U.S. federal statutory rate primarily due to the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Statutory rate	35.0%	35.0%	35.0%	35.0%
State taxes	1.6%	1.8%	3.5%	2.7%
Foreign taxes	(7.8)%	(47.1)%	(13.4)%	(22.6)%
Credits	(0.0)%	2.9%	(0.3)%	(1.9)%
Other	(1.1)%	1.9%	1.1%	0.2%
Fair value adjustment	1.0%	21.5%	7.0%	17.0%
IPR&D	0.0%	0.0%	37.2%	0.0%
Gain on settlement of Fumapharm license agreement	0.0%	0.0%	(3.9)%	0.0%
	28.7%	16.0%	66.2%	30.4%

Our effective tax rate for the three months ended September 30, 2006 were lower than the U.S. statutory rate primarily due to the effect of lower income tax rates (less than the 35% U.S. statutory corporate rate) in certain non-U.S. jurisdictions in which we operate.

Our effective tax rate for the nine months ended September 30, 2006 was higher than the U.S. statutory rate primarily due to the write-off of non-deductible IPR&D in connection with the acquisitions of Conforma and Fumapharm, (offset by the gain on settlement of the Fumapharm license agreement), the impact of acquisition-related intangible amortization related to foreign jurisdictions and state taxes, offset by the effect of lower income tax in certain non-U.S. jurisdictions.

Our effective tax rates for the three and nine months ended September 30, 2005 was lower than the U.S. statutory rate primarily due to the effect of lower income tax rates (less than 35% U.S. statutory corporate rate) in certain non-U.S. jurisdictions, offset by acquisition-related intangible amortization expenses arising from purchase accounting related to foreign jurisdictions.

We have net operating loss carryforwards and tax credit carryforwards for federal and state income tax purposes available to offset future taxable income. The utilization of our net operating loss carryforwards and tax credits may be subject to an annual limitation under the Internal Revenue Code due to a cumulative change of ownership of more than 50% in prior years. However, other than for tax attributes acquired as part of the Conforma transaction, we anticipate that the annual limitation will result only in a modest delay in the utilization of such net operating loss and tax credits.

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 taxes. However, there is a possibility that we may not prevail in all of our assertions. If this is resolved unfavorably in the future based on facts and conditions currently not available to us, this could have a material impact on our future effective tax rate and our results of operations in the period in which an event would occur.

Liquidity and Capital Resources

Financial Condition

Our financial condition is summarized as follows (in thousands);

	September 30, 2006	December 31, 2005
Cash and cash equivalents	$ 414,594	$ 568,168
Marketable securities — short term	246,425	282,585
Marketable Securities — long term	1,372,772	1,204,378
Total cash, cash equivalents and marketable securities	$ 2,033,791	$ 2,055,131
Working capital	$ 890,147	$ 1,035,045
Outstanding borrowings — convertible notes	$ 45,074	$ 43,444
Outstanding borrowings — other	$ 25,440	$ 10,503

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 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 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.

In connection with the strategic plan that we announced in September 2005, 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

The cash provided by operations during the nine months ended September 30, 2006 was $599.5 million, compared to $614.8 million for the nine months ended September 30, 2005. The decline of $15.3 million reflects a use of funds incurred in connection with increases in asset accounts and reductions in liabilities, offset by higher cash-based earnings. Specifically, cash used to finance movements in working capital asset and liability accounts gave rise to a use of funds in the current year of approximately $124.2 million versus a source of funds of $84.2 in the prior year. The total use of funds occurred principally in accrued expenses and other liabilities. The higher level of cash-based earnings in the current year reflects a constant level of net income but higher non-cash expenses in 2006 as compared to 2005. The principal component of the increase in non-cash changes was acquired in-process research and development of $330.5 million in 2006.

Investing activities

Investing activities used cash of $536.1 million in the nine months ended September 30, 2006 compared to providing $488.7 million in the nine months ended September 30, 2005. This decrease was due to the net purchase of marketable securities in the current year and payments related to the acquisitions of Fumapharm (approximately $215.5 million) and Conforma (approximately $147.8 million). In the prior year, proceeds from investments of $413.8 million and proceeds from sales of property, plant and equipment of $408.1 million had been sources of cash.

Financing activities

Cash used by financing activities during the nine months ended September 30, 2006 was $217.0 million compared to a use of cash of $1,016.4 million in the nine months ended September 30, 2005. The prior year was higher mainly due to the use of cash for the repurchase of senior notes in 2005 of $746.4 million.

Borrowings

As of September 30, 2006, our remaining indebtedness under our subordinated notes was approximately $45.0 million. At maturity, with dates ranging from 2019 to 2032, these notes will have a face value obligation of approximately $85.6 million. Additionally, one of our international joint ventures maintained a loan that had a carrying value of $25.4 million as of September 30, 2006.

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 our large-scale biological manufacturing facility in Hillerod, Denmark. The original cost of the project was expected to be $372.0 million. As of September 30, 2006, we had committed approximately $254.4 million to the project, of which $241.5 million had been paid. We expect the label and packaging facility to be substantially completed in 2006 and licensed for operation in 2007. In October 2006, our Board of Directors approved the next phase of the project, which is expected to cost an additional $225 million.

The timing of the completion and anticipated licensing of the Hillerod facility is in part dependent upon market acceptance of TYSABRI. See “Risk Factors — Safety Issues with TYSABRI Could Significantly Affect our Growth.” 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.

Contingency

Under a collaboration agreement we entered into in 2004, we committed to pay our collaboration partner a milestone payment of 8 million Euros to be paid upon regulatory approval of a clinical stage compound that is under development for possible sale in Germany. We also guaranteed, upon regulatory approval, minimum royalty payments over a 10-year period totaling 20 million Euros. At this time, there is no active registration in process, and we are unsure if regulatory approval will be achieved. It is possible that our collaboration partner could assert a claim; however, if this were to occur, we believe that we would have meritorious defenses against any such claim.

Share Repurchase Program

In October 2004, our Board of Directors authorized the repurchase of up to 20.0 million shares of our common stock. The repurchased stock provided 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 expired on October 4, 2006. We repurchased 7.5 million shares under this program for the nine months ended September 30, 2006.

On October 13, 2006 the Board of Directors authorized the repurchase of up to an additional 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.

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

Please refer to Note 10, Litigation, for a discussion of legal matters as of September 30, 2006.

New Accounting Standards

Please refer to Note 15, New Accounting Pronouncements, for a discussion of new accounting standards.

Critical Accounting Estimates

We incorporate by reference the section “Management’s Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Estimates” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Significant judgments and/or updates to the policies since December 31, 2005 are included below.

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 Elan to the customer. The timing of distributor orders and shipments can cause variability in earnings.

Revenues are recorded net of applicable allowances for returns, patient assistance, trade term discounts, Medicaid rebates, Veteran’s Administration rebates, managed care discounts and other applicable allowances. Included in our consolidated balance sheets at September 30, 2006 and December 31, 2005 are allowances for returns, rebates, discounts and other allowances which totaled $71.2 million and $65.3 million, respectively.

At September 30, 2006, our allowance for product returns, which is a component of allowances for returns, rebates, discounts, and other allowances, was $15.9 million. At September 30, 2006, total reserves for product returns were approximately 1.2% of total current assets and less than 0.2% of total assets. We prepare our

estimates of product returns based primarily on historical experience updated for changes in facts and circumstances, as appropriate.

During the three months ended June 30, 2006, we recorded an increase in our allowance for expired products of $12.3 million to correct for prior period errors. This increase in the allowance was recorded through an out of period reduction in net revenue of $6.9 million and an increase in goodwill of $5.4 million. We identified and quantified the errors through an analysis of the historical rate for returns based on volumes of returns and the amount of credit granted to the returning distributor in past periods. At the time of merger with Biogen Inc. in 2003, Biogen Inc. had understated its allowance for expired product by an estimated $5.4 million due to an incorrect methodology applied in calculating its reserve balance. Had we identified this error at the time of the merger, the recorded goodwill would have been approximately $5.4 million higher than was reflected. We have also determined that this prior methodology was in error because it did not use known information in determining critical assumptions used in the basis of our calculation. Applying this methodology in the post-merger period resulted in understating this reserve by an additional $6.9 million. In all cases, the correctly calculated rate of return is less than one percent of related gross product revenues. We have determined that, in accordance with APB 28, *Interim Financial Reporting* paragraph 29, this out of period correction is not material to the current year. Additionally, we have determined that the error at the merger date is not material to any prior period balance sheet amounts and the error in the post-merger period is not material to any prior year reported amounts.

For the three and nine months ended September 30, 2006 we recorded $58.5 million and $180.4 million, respectively, in our consolidated statement of income related to sales returns and allowances, rebates, discounts and other allowances, compared to $59.1 million and $167.0 million, respectively for the comparable periods in 2005. In the three and nine months ended September 30, 2006, the amount of these allowances was approximately 12.3% and 13.7%, respectively, of product revenue for all our products, compared to 15.1% and 14.1%, respectively, for the comparable periods in 2005. Product returns, which is a component of allowances for returns, rebates, discounts, and other allowances, were $8.7 million and $30.7 million for the three and nine months ended September 30, 2006, and $4.0 million and $20.1 million for the comparable periods in 2005.

The increase in product returns expense for the three months ended September 30, 2006, as compared to the same period in 2005, is primarily a result of higher returns experience. The increase in expense for product returns for the nine months ended September 30, 2006, as compared to the same period in 2005, is primarily a result of the increases to the reserve discussed above and higher returns experience in the current year. Additionally, in the prior year, the expense included $9.7 million due to the voluntary suspension of TYSABRI. Product returns in the three and nine months ended September 30, 2006 included $3.0 and $9.7 million, respectively, related to product sales made prior to 2006. Of these amounts, $2.3 million was in reserves at December 31, 2005.

TYSABRI

During the third quarter of 2006, we began to sell TYSABRI in both the U.S. and Europe. Under the terms of our agreement with Elan, we manufacture TYSABRI. Furthermore, in the U.S. we sell TYSABRI to Elan who distribute it and co-market it in collaboration with us.

Sales to Elan in the U.S. are made at predetermined prices that are reset on a quarterly basis prospectively, in a manner that allocates 50% of the gross margin of the collaboration to each of the partners. For sales to Elan in the U.S. our policy is to recognize revenue on the “sell-through” model, that is, upon shipment of the product by Elan to the customer. Reimbursements by Elan of our operating costs are reflected as reductions in the reported amount of those costs.

In Europe we market and distribute TYSABRI and share profits and losses so that both we and Elan share 50% of the net pre-tax profits of the collaboration. Our policy is to recognize revenue at the time of shipment of the product. We reimburse Elan for commercial costs incurred by them on behalf of the international sales effort. Such reimbursements are recorded as selling and marketing. The net profit or loss sharing payment paid to or by Elan (based on the collaboration’s net pre-tax income or loss) is recorded as a component of cost of goods sold.

Prior to the suspension of TYSABRI in 2005, we shipped product to Elan and recognized revenue in accordance with the policy described above. Accordingly, as of March 31, 2005, we deferred $14.0 million in revenue from

Elan related to sales of TYSABRI that had not yet been shipped by Elan. This amount was paid by Elan during 2005, and was recognized as revenue during the third quarter of 2006 as the uncertainty about the ultimate disposition of the product was eliminated during the period.

As of September 30, 2006, Elan owed us $28.0 million, representing reimbursable commercialization and development expenses incurred by us. This amount is included in other current assets on our consolidated balance sheet.

Revenues from Unconsolidated Joint Business

Revenues from unconsolidated joint business consist of our share of the pretax copromotion profits generated from our copromotion arrangement with Genentech, reimbursement from Genentech of our RITUXAN-related sales force and development expenses, and royalties from Genentech for sales of RITUXAN® (rituximab) outside the U.S. by Roche, and Zenyaku. Under the copromotion arrangement, all U.S. sales of RITUXAN and associated costs and expenses are recognized by Genentech and we record our share of the pretax copromotion profits on a quarterly basis, as defined in our amended and restated collaboration agreement with Genentech. Pretax copromotion profits under the copromotion arrangement are derived by taking U.S. net sales of RITUXAN to third-party customers less cost of sales, third-party royalty expenses, distribution, selling and marketing expenses, and joint development expenses incurred by Genentech and us. We record royalty revenue on sales of RITUXAN outside the U.S. on a cash basis.

Royalty Revenues

We receive royalty revenues under license agreements with a number of third parties that sell products based on technology we have developed or to which we have rights. The license agreements provide for the payment of royalties to us based on sales of the licensed product. We record these revenues based on estimates of the sales that occurred during the relevant period. The relevant period estimates of sales are based on interim data provided by licensees and analysis of historical royalties we have received (adjusted for any changes in facts and circumstances, as appropriate). We maintain regular communication with our licensees in order to obtain information to develop reasonable estimates. Differences between actual royalty revenues and estimated royalty revenues are reconciled and adjusted for in the period which they become known, typically the following quarter. Historically, adjustments have not been material based on actual amounts received from licensees. There are no future performance obligations on our part under these license agreements. To the extent we do not have sufficient ability to accurately estimate revenue, we record revenue on a cash basis.

Share-Based Payments

Our share-based compensation programs consist of share-based awards granted to employees including stock options, restricted stock, performance share units and restricted stock units, as well as our ESPP.

As discussed in Note 6, Share-Based Payments, effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004) — *Share-Based Payment*, or SFAS 123(R). This Statement requires compensation cost relating to share-based payment transactions to be recognized in the financial statements using a fair-value measurement method. Prior to January 1, 2006, we accounted for stock options using the intrinsic value method. This method measures share-based compensation expense as the amount by which the market price of the stock on the date of grant exceeds the exercise price. We had not recognized any significant share-based compensation expense under this method related to stock options in recent years because we granted stock options at the market price as of the date of grant.

The estimated fair value of options, including the effect of estimated forfeitures, is recognized over the options' vesting periods. The fair value of all time vested restricted units and restricted stock is based on the market value of our stock on the date of grant. Compensation expense for restricted stock and restricted stock units, including the effect of forfeitures, is recognized over the applicable service period. The fair value of performance based stock units is based on the market price of the Company's stock on the date of grant and assumes that the performance criteria will be met and the target payout level will be achieved. Compensation cost is adjusted for subsequent changes in the outcome of performance-related conditions until the vesting dates. If actual forfeitures differ

significantly from our estimated forfeitures, there could be a significant impact on our results of operations. Additionally, future changes to our assumptions to the success of achieving the performance criteria for restricted stock units could significantly impact our future results of operations.

The fair value of 2006 stock option grants were estimated as of the date of grant using a Black-Scholes option valuation model that uses the following weighted-average assumptions:

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Expected dividend yield	0%	0%
Expected stock price volatility	34.8%	34.8%
Risk-free interest rate	4.70%	4.38%
Expected option life in years	4.87	4.87
Resulting Calculation		
Per share grant date fair value	$13.33	$16.88

Expected volatility is based primarily upon implied volatility for our exchange traded options and other factors, including historical volatility. After assessing all available information on either historical volatility, implied volatility, or both, we have concluded that a combination of both historical and implied volatility provides its best estimate of expected volatility. The expected term of options granted is derived from using assumed exercise rates based on historical exercise patterns, and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate used is determined by the market yield curve based upon the risk-free interest rates established by the Federal Reserve, or non-coupon bonds that have maturities equal to the expected term. The dividend yield is based upon the fact that we have not historically granted cash dividends, and do not expect to issue dividends in the foreseeable future. Stock options granted prior to January 1, 2006 were valued based on the grant-date fair value of those awards, using the Black-Scholes option pricing model, as previously calculated for pro-forma disclosures under SFAS 123 — *Accounting for Stock-based Compensation*. Alternative estimates and judgements could yield materially different results.

Inventory

Capitalization of Inventory Costs

We capitalize inventory costs associated with our products prior to regulatory approval, when, based on management's judgment, future commercialization is considered probable and the future economic benefit is expected to be realized. We consider numerous attributes in evaluating whether the costs to manufacture a particular product should be capitalized as an asset. We assess the regulatory approval process and where the product stands in relation to that approval process including any known constraints and impediments to approval, including safety, efficacy and potential labeling restrictions. We evaluate our anticipated research and development initiatives and constraints relating to the particular product and the indication in which it will be used. We consider our manufacturing environment including our supply chain in determining logistical constraints that could possibly hamper approval or commercialization. We consider the shelf life of the product in relation to the expected timeline for approval and we consider patent related or contract issues that may prevent or cause delay in commercialization. We are sensitive to the significant commitment of capital to scale up production and to launch commercialization strategies. We also base our judgment on the viability of commercialization, trends in the marketplace and market acceptance criteria. Finally, we consider the reimbursement strategies that may prevail with respect to the product and assess the economic benefit that we are likely to realize. We would be required to expense previously capitalized costs related to pre-approval inventory upon a change in such judgment, due to, among other potential factors, a denial or delay of approval by necessary regulatory bodies.

Valuation of Inventory

We periodically review our inventories for excess or obsolete inventory and write-down obsolete or otherwise unmarketable inventory to its estimated net realized value. If the actual realizable value is less than that estimated by us, or if there are any further determinations that inventory will not be marketable based on estimates of demand,

additional inventory write-downs may be required. This periodic review led to the expensing of costs associated with the manufacture of TYSABRI during 2005, as described above, and may lead us to expense costs associated with the manufacture of TYSABRI or other inventory in subsequent periods.

Our products are subject to strict quality control and monitoring throughout the manufacturing process. Periodically, certain batches or units of product may no longer meet quality specifications or may expire. As a result, included in cost of product revenues were write-downs of commercial inventory that did not meet quality specifications or became obsolete due to dating expiration, in all cases this product inventory was written-down to its net realizable value.

Item 3. ***Quantitative and Qualitative Disclosure 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, 2005. There have been no material changes in the first nine months of 2006 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 September 30, 2006. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2006, 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 third quarter of 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II — OTHER INFORMATION

Item 1. ***Legal Proceedings.***

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

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

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 below and elsewhere in this report. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the risks listed below to be a complete set of all potential risks or uncertainties. Although we believe that the risks described below represent all material risks currently applicable to our business, additional risks and uncertainties

not presently known to us or that are currently not believed to be significant to our business may also affect our actual results and could harm our business, financial condition and results of operations.

Our Revenues Rely Significantly on a Limited Number of Products

Our current and future revenues depend substantially upon continued sales of our commercial products. Revenues related to sales of two of our products, AVONEX and RITUXAN, represented approximately 92% of our total revenues in three months ended September 30, 2006. We cannot assure you that AVONEX or RITUXAN will continue to be accepted in the U.S. or in any foreign markets or that sales of either of these products will not decline in the future. A number of factors may affect market acceptance of AVONEX, RITUXAN, TYSABRI and our other products, including:

- the perception of physicians and other members of the health care community of their safety and efficacy relative to that of competing products;
- patient and physician satisfaction with these products;
- the effectiveness of our sales and marketing efforts and those of our marketing partners and licensees in the U.S., the EU and other foreign markets;
- the size of the markets for these products;
- unfavorable publicity concerning these products or similar drugs;
- the introduction, availability and acceptance of competing treatments;
- the availability and level of third party reimbursement;
- adverse event information relating to any of these products;
- changes to product labels to add significant warnings or restrictions on use;
- the success of ongoing development work on RITUXAN and new anti-CD20 product candidates;
- the continued accessibility of third parties to vial, label, and distribute these products on acceptable terms;
- the unfavorable outcome of patent litigation related to any of these products;
- the ability to manufacture commercial lots of these products successfully and on a timely basis; and
- regulatory developments related to the manufacture or continued use of these products.

Any material adverse developments with respect to the commercialization of these products may cause our revenue to grow at a slower than expected rate, or even decrease, in the future. In addition, the successful development and commercialization of new anti-CD20 product candidates in our collaboration with Genentech (which also includes RITUXAN) will adversely affect our participation in the operating profits from such collaboration (including as to RITUXAN) in such a manner that, although overall collaboration revenue might ultimately increase as the result of the successful development and commercialization of any such product candidate, our share of the operating profits will decrease.

Safety Issues with TYSABRI Could Significantly Affect our Growth

TYSABRI was approved by the FDA in November 2004 to treat relapsing forms of MS to reduce the frequency of clinical relapses. In February 2005, in consultation with the FDA, we and Elan voluntarily suspended the marketing and commercial distribution of TYSABRI. We also suspended dosing in all clinical trials of TYSABRI. These decisions were based on reports of cases of progressive multifocal leukoencephalopathy, or “PML,” an

opportunistic viral infection of the brain that usually leads to death or severe disability in patients treated with TYSABRI in clinical studies. We and Elan conducted a safety evaluation of patients treated with TYSABRI in MS, Crohn's disease and RA clinical studies. The safety evaluation included the review of any reports of potential PML in MS patients receiving TYSABRI in the commercial setting. In October 2005, we completed the safety evaluation and found no new confirmed cases of PML. Three confirmed cases of PML were previously reported, two of which were fatal.

In June 2006, the FDA approved a supplemental Biologics License Application, or sBLA, for the reintroduction of TYSABRI as a monotherapy treatment for relapsing forms of MS to slow the progression of disability and reduce the frequency of clinical relapses. The FDA granted approval for reintroduction based on a review of TYSABRI clinical trial data; revised labeling with enhanced safety warnings; and a risk management plan (TOUCH Prescribing Program) designed to inform physicians and patients of the benefits and risks of TYSABRI treatment and minimize the potential risk of PML. Because of the increased risk of PML, TYSABRI monotherapy is generally recommended for patients who have had an inadequate response to, or are unable to tolerate, alternate MS therapies. Elements of the TOUCH Prescribing Program include:

- revised labeling with a prominent boxed warning of the risk of PML; and warnings against concurrent use of TYSABRI with chronic immunosuppressant or immunomodulatory therapies, and patients who are immunocompromised due to HIV, hematological malignancies, organ transplants or immunosuppressive therapies;
- mandatory enrollment for all prescribers, central pharmacies, infusion centers and patients who wish to prescribe, distribute, infuse, or receive, respectively, TYSABRI;
- controlled, centralized distribution only to authorized infusion centers;
- mandatory FDA-reviewed educational tools for patients and physicians, including a patient medication guide, TOUCH enrollment form and a monthly pre-infusion checklist;
- ongoing assessment of PML risk and overall safety; and
- a 5,000 patient cohort observational study over five years.

In June 2006, we and Elan also received approval from the European Commission to market TYSABRI as a treatment for relapsing remitting MS to delay the progression of disability and reduce the frequency of relapses. TYSABRI is indicated as a single disease modifying therapy in highly active relapsing remitting MS for patients with high disease activity despite treatment with a beta-interferon or in patients with rapidly evolving severe relapsing remitting MS.

The success of any reintroduction into the U.S. market and launch in the EU will depend upon acceptance of TYSABRI by the medical community and patients, which cannot be certain given the significant restrictions on use and the significant safety warnings in the label. Any significant lack of acceptance of TYSABRI by the medical community or patients would materially affect our growth and impact various aspects of our business and our plans for the future. This could result in, among other things, material write-offs of inventory, intangible assets or goodwill, impairment of capital assets, and additional reductions in our workforce.

Our Long-Term Success Depends Upon the Successful Development and Commercialization of Other Products from Our Research and Development Activities and External Growth Opportunities

Our long-term viability and growth will depend upon the successful development and commercialization of other products from our research and development activities and external growth opportunities. We, along with Genentech, continue to expand our development efforts related to RITUXAN and we are independently expanding development efforts around other potential products in our pipeline. The expansion of our pipeline may include increases in spending on internal projects, and is expected to include an increase in spending on external growth opportunities, such as the acquisition and license of Aviptadil and CDP323, third party technologies or products, collaborations with Alnylam Pharmaceuticals, UCB, and other companies and universities, the acquisitions of

companies with commercial products and/or products in their pipelines, and other types of investments. Product development and commercialization involve a high degree of risk. Only a small number of research and development programs result in the commercialization of a product. In addition, competition for collaborations and the acquisition and in-license of third party technologies and products in the biopharmaceutical industry is intense. We cannot be certain that we will be able to enter into collaborations or agreements for desirable and compatible technologies or products on acceptable terms or at all. Many important factors affect our ability to successfully develop and commercialize other products, including the ability to:

- obtain and maintain necessary patents and licenses;
- demonstrate safety and efficacy of drug candidates at each stage of the clinical trial process;
- enroll patients in our clinical trials and complete clinical trials;
- overcome technical hurdles that may arise;
- manufacture successfully products in sufficient quantities to meet demand;
- meet applicable regulatory standards;
- obtain reimbursement coverage for the products;
- receive required regulatory approvals;
- produce drug candidates in commercial quantities at reasonable costs;
- compete successfully against other products and market products successfully;
- enter into agreements for desirable and compatible technologies or products on acceptable terms;
- anticipate accurately the costs associated with any acquisition;
- prevent the potential loss of key employees of any acquired business;
- acquire a supplier base for the materials associated with any new product opportunity;
- hire additional employees to operate effectively any acquired business, including employees with specialized knowledge;
- mitigate risks associated with entering into new markets in which we have no or limited prior experience; and
- manage successfully any significant collaborations and/or integrate any significant acquisitions.

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 exists 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.

Competition in Our Industry and in the Markets for Our Products is Intense

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 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.

AVONEX competes with four other products:

- REBIF, which is co-promoted by Serono, Inc. and Pfizer Inc. in the U.S. and sold by Serono AG in the EU;
- BETASERON, sold by Berlex in the U.S. and sold under the name BETAFERON by Schering A.G. in the EU;
- COPAXONE, sold by Teva in the U.S. and co-promoted by Teva and Aventis Pharma in the EU; and
- TYSABRI, which is co-promoted by Elan and us.

In addition, a number of companies, including us, are working to develop products to treat MS that may in the future compete with AVONEX. AVONEX also faces 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 AVONEX.

RITUXAN is typically used after patients fail to respond or relapse after treatment with traditional radiation therapy or standard chemotherapy regimes, such as CVP and CHOP. ZEVALIN is typically used after patients fail to respond or relapse following treatment with RITUXAN. A number of other companies, including us, are working to develop products to treat B-cell NHLs and other forms of non-Hodgkin's lymphoma that may ultimately compete with RITUXAN.

In February 2006, the FDA approved the sBLA for use of RITUXAN, in combination with methotrexate, for reducing signs and symptoms in adult patients with moderately-to-severely active RA who have had an inadequate response to one or more TNF antagonist therapies. RITUXAN will compete with several different types of therapies in the RA market, including:

- traditional therapies for RA, including disease-modifying anti-rheumatic drugs, such as steroids, methotrexate and cyclosporine, and pain relievers such as acetaminophen;
- anti-TNF therapies, such as REMICADE, a drug sold worldwide by Centocor, Inc., a subsidiary of Johnson & Johnson, HUMIRA, a drug sold by Abbott Laboratories, and ENBREL, a drug sold by Amgen,Inc. and Wyeth Pharmaceuticals, Inc.;
- ORENCIA, a drug developed by Bristol-Myers Squibb Company, which was approved by the FDA to treat moderate-to-severe RA in December 2005;
- drugs in late-stage development for RA; and
- drugs approved for other indications that are used to treat RA.

In addition, a number of other companies, including us, are working to develop products to treat RA that may ultimately compete with RITUXAN in the RA marketplace.

We are Subject to Risks Related to the Products that We Manufacture

We manufacture and expect to continue to manufacture our own commercial requirements of bulk AVONEX, and TYSABRI. 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. Any such problem would be exacerbated by unexpected demand for our products. In June 2005, we sold our large-scale

manufacturing facility in Oceanside, California to Genentech. We previously had planned to use the Oceanside facility to manufacture TYSABRI and other commercial products. We currently manufacture TYSABRI at our manufacturing facility in Research Triangle Park, North Carolina, or RTP. 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. Our plans with respect to the Hillerod large-scale manufacturing facility are, in part, dependent upon the market acceptance of TYSABRI. See "Risk Factors — Safety Issues with TYSABRI Could Significantly Affect our Growth." We expect that we will be able to meet foreseeable manufacturing needs for TYSABRI from our large-scale manufacturing facility in RTP.

If we cannot produce sufficient commercial requirements of bulk product to meet demand, we would need to rely on third party manufacturers, of which there are only a limited number capable of manufacturing bulk products of the type we require as contract suppliers. 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. For a discussion of the risks associated with using third parties to perform manufacturing-related services for our products, see "Risk Factors — We Rely to a Large Extent on Third Parties in the Manufacturing of Our Products." 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. 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 to a Large Extent on Third Parties in the Manufacturing of Our Products

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 the 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.

The Manufacture of Our Products is Subject to Government Regulation

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 ultimate amendment acceptance by the FDA prior to release of product to the market place. Our inability or the inability of our third party service providers to demonstrate ongoing cGMP 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 could increase our costs, cause us to lose revenue or market share and damage our reputation.

Royalty Revenues Contribute to Our Overall Profitability and Are Not Within Our Control

Royalty revenues contribute to our overall profitability. Royalty revenues may fluctuate as a result of disputes with licensees, collaborators and partners, future patent expirations and other factors such as pricing reforms, health care reform initiatives, other legal and regulatory developments and the introduction of competitive products that may have an impact on product sales by our licensees and partners. In addition, sales levels of products sold by our licensees, collaborators and partners may fluctuate from quarter to quarter due to the timing and extent of major events such as new indication approvals or government-sponsored programs. Since we are not involved in the development or sale of products by our licensees, collaborators and partners, we cannot be certain of the timing or potential impact of factors which may affect their sales. In addition, the obligation of licensees to pay us royalties generally terminates upon expiration of the related patents.

Our Operating Results Are Subject to Significant Fluctuations

Our quarterly revenues, expenses and net income have fluctuated in the past and are likely to fluctuate significantly in the future. Fluctuation may result from a variety of factors, including:

- demand and pricing for our products;
- physician and patient acceptance of our products;
- amount and timing of sales orders for our products;
- our achievement of product development objectives and milestones;
- research and development and manufacturing expenses;
- clinical trial enrollment and expenses;
- our manufacturing performance and capacity and that of our partners;
- percentage of time that our manufacturing facilities are utilized for commercial versus clinical manufacturing;
- rate and success of product approvals;
- costs related to obtain product approvals, launching new products and maintaining market acceptance for existing products;
- timing of regulatory approval, if any, of competitive products and the rate of market penetration of competing products;
- new data or information, positive or negative, on the benefits and risks of our products or products under development;
- expenses related to protecting our intellectual property;
- expenses related to litigation and settlement of litigation;
- payments made to acquire new products or technology;
- write downs and write offs of inventories, intangible assets, goodwill or investments;

- impairment of assets, such as buildings and manufacturing facilities;
- government or private healthcare reimbursement policies;
- collaboration obligations and copromotion payments we make or receive;
- timing and nature of contract manufacturing and contract research and development payments and receipts;
- interest rate fluctuations;
- changes in our effective tax rate;
- foreign currency exchange rates; and
- overall economic conditions.

Our operating results during any one quarter do not necessarily suggest the anticipated results of future quarters.

Our Revenues Depend on Payment and Reimbursement from Third Party Payors, and, to the Extent that Payment or Reimbursement for Our Products Is Reduced, this Could Negatively Impact 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 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 and some third party trade in our products from markets with lower prices — thereby undermining our sales in some markets with higher prices.

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.

We May Be Unable to Adequately Protect or Enforce Our Intellectual Property Rights or Secure Rights to Third Party Patents

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. There is no certainty that our existing patents or others, if obtained, will afford us substantial protection or commercial benefit. Similarly, there is no assurance that our pending patent applications or patent applications licensed from third parties will ultimately be granted as patents or that those patents that have been issued or are issued in the future will prevail if they are challenged in court.

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, which 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.

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 other 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.

Legislative or Regulatory Changes Could Harm Our Business

Our business is subject to extensive government regulation and oversight. As a result, we may become subject to governmental actions which could 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;
- new laws, regulations and judicial decisions affecting pricing or marketing; and

- changes in the tax laws relating to our operations.

Failure to Comply with Government Regulations Regarding Our Products Could Harm Our Business

Our activities, including the sale and marketing of our products, are subject to extensive government regulation and oversight, including regulation under the federal Food, Drug and Cosmetic Act and other federal and state statutes. 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. We cannot predict with certainty the eventual outcome of any litigation in this area. If we were to be convicted of violating laws regulating the sale and marketing of our products, our business could be materially harmed.

Some of Our Activities may Subject Us to Risks under Federal and State Laws Prohibiting "Kickbacks" and False or Fraudulent Claims

We are subject to the provisions of a federal law commonly known as the Medicare/Medicaid anti-kickback law, and several similar state laws, which prohibit payments intended to induce physicians or others either to purchase or arrange for or recommend the purchase of healthcare products or services. While the federal law applies only to products or services for which payment may be made by a federal healthcare program, state laws may apply regardless of whether federal funds may be involved. 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).

Pharmaceutical and biotechnology companies have been the target of lawsuits and investigations alleging violations of government regulation, including claims asserting violations of the federal False Claim Act, the federal anti-kickback statute, and other violations in connection with off-label promotion of products and Medicare and/or Medicaid reimbursement, or related to claims under state laws, including state anti-kickback and fraud laws. For example, we and a number of other major pharmaceutical and biotechnology companies are named defendants in certain Average Wholesale Price litigation pending in the U.S. District Court for the District of Massachusetts alleging, among other things, violations in connection with Medicaid reimbursement. See "Legal Proceedings" for a description of this litigation. While we continually strive to comply with these complex requirements, interpretations of the applicability of these laws to marketing practices is ever evolving and even an unsuccessful challenge could cause adverse publicity and be costly to respond to, and thus could have a material adverse effect on our business, results of operations and financial condition.

Failure to Prevail in Litigation or Satisfactorily Resolve a Third Party Investigation Could Harm Our Business

Pharmaceutical and biotechnology companies have been the target of lawsuits relating to product liability claims and disputes over intellectual property rights (including patents). See "Risk Factors — We May Be Unable to Adequately Protect or Enforce Our Intellectual Property Rights or Secure Rights to Third Party Patents." Additionally, the administration of drugs in humans, whether in clinical studies or commercially, can result in lawsuits with product liability claims whether or not the drugs are actually at fault in causing an injury. Our products or product candidates may cause, or may appear to have caused, injury or dangerous drug interactions that we may not learn about or understand 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 filed by patients who have developed PML or other serious adverse events while using TYSABRI.

Public companies may also be the subject of certain other types of claims, including those asserting violations of securities laws and derivative actions. For example, we face class action lawsuits related to our announcement of the suspension of marketing and commercial distribution of TYSABRI in February 2005. In April 2005, we received a formal order of investigation from the Boston District Office of the SEC. The SEC is investigating whether any violations of the federal securities laws occurred in connection with the suspension of marketing and commercial distribution of TYSABRI. We continue to cooperate fully with the SEC in this investigation.

We cannot predict with certainty the eventual outcome of any pending litigation or third party investigation. We may not be successful in defending ourselves or asserting our rights in the litigation or investigation to which we are currently subject, or in new lawsuits, investigations or claims brought against us, and, as a result, our business could be materially harmed. These lawsuits, investigations or claims may result in large judgments or settlements against us, any of which could have a negative effect on our financial performance and business. Additionally, lawsuits and investigations can be expensive to defend, whether or not the lawsuit or investigation has 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 maintain product liability and director and officer insurance that we regard as reasonably adequate to protect us from potential claims, however we cannot be certain that it will. Also, the costs of insurance have increased dramatically in recent years, and the availability of coverage has decreased. As a result, we cannot be certain that we will be able to maintain our current product liability insurance at a reasonable cost, or at all.

Our Business Involves Environmental Risks

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.

We Rely Upon Key Personnel

Our success will depend, to a great extent, upon the experience, abilities and continued services of our executive officers and key scientific personnel. If we lose the services of any of these individuals, our business could be harmed. We currently have an employment agreement with James C. Mullen, our Chief Executive Officer and President. Our success also will depend upon our ability to attract and retain other highly qualified scientific, managerial, sales and manufacturing personnel and our ability to develop and maintain relationships with qualified clinical researchers. Competition to obtain the services of these personnel and relationships is intense and we compete with numerous pharmaceutical and biotechnology companies as well as with universities and non-profit research organizations. We may not be able to continue to attract and retain qualified personnel or develop and maintain relationships with clinical researchers. One effect of recent workforce reductions is the loss of research, development and other personnel that could have contributed to our future growth. It remains to be seen whether the loss of such personnel will have an adverse effect on our ability to accomplish our research, development and external growth objectives.

Future Transactions May Harm Our Business or the Market Price of Our Stock

We regularly review potential transactions related to technologies, products or product rights and businesses complementary to our business. These transactions could include:

- mergers;
- acquisitions:
- strategic alliances;
- licensing and collaboration agreements; and
- copromotion agreements.

We may choose to enter into one or more of these transactions at any time, which may cause substantial fluctuations to the market price of our stock. Moreover, depending upon the nature of any transaction, we may experience a charge to earnings, which could also harm the market price of our stock.

We are Subject to Market Risk

We have exposure to financial risk in several areas including changes in foreign exchange rates and interest rates. We attempt to minimize our exposures to such risks by using certain financial instruments, for purposes other than trading, in accordance with our overall risk management guidelines. See "Critical Accounting Estimates" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding our accounting policies for financial instruments and disclosures of financial instruments.

Our Financial Position, Results of Operations and Cash Flows can be Affected by Fluctuations in Foreign Currency Exchange Rates

We have operations in Europe, Japan, Australia and Canada in connection with the sale of AVONEX. We also receive royalty revenues based on worldwide product sales by our licensees and through Genentech on sales of RITUXAN outside of the U.S. As a result, our financial position, results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates (primarily Euro, Swedish krona, British pound, Japanese yen, Canadian dollar and Swiss franc).

We are Exposed to Risk of Interest Rate Fluctuations

The fair value of our cash, cash equivalents and marketable securities are subject to change as a result of potential changes in market interest rates.

Volatility of Our Stock Price

The market prices for our common stock and for securities of other companies engaged primarily in biotechnology and pharmaceutical development, manufacture and distribution are highly volatile. For example, the selling price of our common stock fluctuated between $70.00 per share and $33.18 per share during 2005. The market price of our common stock likely will continue to fluctuate due to a variety of factors, including:

- material public announcements;
- the announcement and timing of new product introductions by us or others;
- material developments relating to TYSABRI;
- events related to our other products or those of our competitors, including the withdrawal or suspension of products from the market;
- technical innovations or product development by us or our competitors;
- regulatory approvals or regulatory issues;
- availability and level of third party reimbursement;

- developments relating to patents, proprietary rights and Orphan Drug status;
- results of late-stage clinical trials with respect to our products under development or those of our competitors;
- new data or information, positive or negative, on the benefits and risks of our products or products under development;
- political developments or proposed legislation in the pharmaceutical or healthcare industry;
- economic and other external factors, disaster or crisis;
- period-to-period fluctuations in our financial results or results which do not meet or exceed analyst expectations; and
- market trends relating to or affecting stock prices throughout our industry, whether or not related to results or news regarding us or our competitors.

We Have Adopted Several Anti-takeover Measures As Well As Other Measures to Protect Certain Members of Our Management Which May Discourage or Prevent a Third Party From Acquiring Us

A number of factors pertaining to our corporate governance discourage a takeover attempt that might 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;
- 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, Genentech may present an offer to us to purchase our rights to RITUXAN. We must then accept Genentech's offer or purchase Genentech's rights to RITUXAN. 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;
- advance notice is required for nomination of candidates for election as a director and for proposals to be brought before an annual meeting of stockholders; and
- our bylaws provide that, until November 12, 2006, the affirmative vote of at least 80% of our board of directors (excluding directors who are serving as an officer or employee) is required to remove James C. Mullen as our Chief Executive Officer and President.

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

A summary of our stock repurchase activity for the nine months ended September 30, 2006 is set forth in the table below:

Issuer Purchases of Equity Securities

Period	Total number of shares purchased (#)(a)	Average price paid per share ($)	Total number of shares purchased as part of publicly announced program (#)(a)	Number of shares that may yet be purchased under our program (#)
Q1	8,040(b)	$45.56	8,040(b)	11,908,360
Q2	—	$ —	—	11,908,360
Q3	7,470,500	$42.79	7,470,500	4,437,860
Total — nine months ended 30 September 2006	7,478,540	$42.79	7,478,540	4,437,860

(a) In October 2004, our Board of Directors authorized the repurchase of up to 20.0 million shares of our common stock. This repurchase program expired on October 4, 2006.

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.

Item 6. ***Exhibits***

10.1 Letter agreement regarding employment arrangement of Cecil B. Pickett, Ph.D. dated June 21, 2006.

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.

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.

November 9, 2006

BIOGEN IDEC INC.

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

(BIOGEN IDEC LOGO)

AMENDED OFFER LETTER

Cecil B. Pickett, Ph.D. June 21, 2006

Dear Cecil:

I am pleased to extend to you this offer of employment to join Biogen Idec as President, Research & Development. This position will report to Jim Mullen, Chief Executive Officer and President. The position will be based at our Cambridge, Massachusetts facility.

BASE SALARY: Your starting bi-weekly salary will be $29,807.69, which is equivalent to an annual salary of $775,000. Consistent with Biogen Idec's compensation policy, you will be eligible for a merit salary review in early 2007, with anticipated annual reviews thereafter. Your base salary will not be decreased following future annual salary reviews.

ONE-TIME SIGN-ON BONUS: Upon employment, you will receive $500,000 as a one-time sign-on bonus. This bonus will be established by the Company on your behalf as a nonqualified deferred compensation benefit in accordance with the specifications contained in Attachment A.

SHORT-TERM INCENTIVE: You will be eligible to participate in Biogen Idec's Annual Bonus Plan, with a target bonus level of 75% of your annualized base salary. Bonus payments are generally made in March following the year in which the bonus is earned. In your first year of employment, your Annual Bonus payment will be prorated based upon your effective date of employment. A copy of the Annual Bonus Plan document, with references to specific performance targets deleted, is enclosed with this letter.

LONG-TERM INCENTIVE: Your long-term incentive (LTI) program will consist of three different awards. These LTI awards are described in detail below and on Attachment B.

1. You will be granted 44,400 restricted stock units (RSUs) which, assuming your continued employment, will vest and convert into shares of Biogen Idec common stock at the rate of one-third per year for three years, beginning on the first anniversary of your grant date. The grant date will be the first trading day of the month following your first day of employment (i.e., your effective date of employment).

2. You will also be granted 120,000 RSUs which, assuming your continued employment, will vest and convert into shares of Biogen Idec common stock at the rate of one-fourth per year for four years, beginning on the first anniversary of your grant date. The grant date will be the first trading day of the month following your effective date of employment.

3. Lastly, you will be granted 120,000 performance-based RSUs whose vesting will be pursuant to certain performance criteria and continued employment through the applicable vesting dates (which would occur over the four-year service period beginning with the effective date of grant). The formal plan design for this award is still under development. A proposed model of this plan is attached for illustrative purposes at the end of this letter (Attachment B). Before finalizing this plan, we would like to have your involvement in establishing the metrics and associated goals upon which performance will be measured and rewarded. The final plan design, including the performance goals and vesting schedule, is subject to approval by the Compensation and Management Development Committee. The effective date of grant for these performance-based RSUs will be the date of formal Committee approval.

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At the discretion of the Compensation and Management Development Committee, you will be eligible to receive additional LTI grants over the course of your employment with Biogen Idec. The actual terms of each of your LTI awards will be communicated to you in a separate Notice of Grant. You are considered a "designated employee", as defined in the 2005 Omnibus Equity Plan. Please read the enclosed 2005 Omnibus Equity Plan Document for information on the implications of being a designated employee under the Plan, as well as any applicable terms and conditions of your grants under this program.

STOCK TRADING PLAN: As an executive officer of the Company, you are required to enter into a 10b5-1 stock trading plan. A 10b5-1 plan enables you to buy and sell Biogen Idec securities under pre-specified conditions (e.g., when the price of Biogen Idec stock reaches a certain price), and allows you to sell outside of quarterly "trading windows" whether or not you are in possession of material, nonpublic information. A copy of Biogen Idec's 10b5-1 trading policy is enclosed with this letter.

RELOCATION: Biogen Idec will provide a relocation package to facilitate your move to the Cambridge, Massachusetts area. A copy of Biogen Idec's relocation policy is enclosed with this letter. The relocation benefits and payments will be provided to you after you sign an agreement (Attachment C) that describes in detail your repayment obligation. Certain payments and/or reimbursements from Biogen Idec for relocation and housing will become taxable income to you. For job-related moves, payroll taxes will be withheld for all expenses that are not directly related to the move, which are defined as non-qualified moving expenses under State and Federal tax law. You will be responsible for all tax liabilities incurred for these non-qualified moving expenses.

EMPLOYEE BENEFITS: Biogen Idec offers a robust and highly competitive employee benefits program. As an employee, you will be able to choose from a menu of options through our flexible benefits program. These benefits include a 401 (k) savings plan; group health care, including medical, dental, prescription and vision coverage; life, dependent life and disability insurance; as well as flexible spending accounts for eligible medical and dependent care expenses. You are also entitled to 20 vacation days per year, accrued on a per pay period basis. Additional benefit offerings include an Employee Stock Purchase Plan (ESPP) and commuter benefits such as free parking or commuter/rail passes. Please visit Biogen Idec's benefits website (www.mybenerqy.com; user ID = cambridge, password = biogen) to familiarize yourself with Biogen Idec's complete benefit plan offerings.

ADDITIONAL EXECUTIVE BENEFITS

SUPPLEMENTAL SAVINGS PLAN: You will be entitled to participate in Biogen Idec's Supplemental Savings Plan (SSP). This plan allows you to make pre-tax deferrals of up to 80% of your base salary and up to 100% of your Annual Bonus payment. Your contributions to this plan may be limited by your contributions towards other plans (e.g., 401k, ESPP, medical, etc.).

LIFE INSURANCE: You will be provided life insurance coverage equal to three times your annual base salary, to a maximum benefit of $1,500,000, subject to meeting the medical standards stated in the group term life insurance policy for U.S. employees. Biogen Idec pays the premium for this insurance. The IRS requires employers to impute the value of company-paid life insurance for coverage over $50,000. This imputed income will be displayed on your pay stub.

SEVERANCE: In the event Biogen Idec terminates your employment other than For Cause (as defined in Attachment D), you will receive a severance benefit that includes: (i) a cash payment that is calculated based on your annual cash compensation; and (ii) coverage under Biogen Idec's group medical and dental insurance plans. Your cash severance benefit will be based on the lesser of 21 months or the number of months (prorated) between the effective date of termination and the date on which you reach age 65. Your severance benefits are explained in detail in the attached executive severance document (Attachment D).

IRC 280G EXCISE TAXES: In the event of a Change in Control (as defined in Section 280g of the Internal Revenue Code), compensation paid to you may trigger an excise tax (in addition to ordinary income taxes). Biogen Idec will reimburse you for any excise taxes you incur as a result of a Change in Control. This includes gains from the exercise of stock options and vesting of restricted stock and/or units, as well as the reimbursement for such penalties. In addition, Biogen Idec will reimburse you for income taxes imposed on the excise taxes.

TAX PREPARATION, FINANCIAL AND ESTATE PLANNING: You are entitled to reimbursement of up to $7,500 per calendar year (January 1 - December 31) for expenses incurred due to tax preparation, financial and/or estate planning services, as well as the purchase of tax preparation and/or financial planning software. You will be eligible for the full calendar-year benefit in the year you begin employment with Biogen Idec. Eligible services provided by qualified providers, accompanied by copies of receipts/invoices, will be reimbursed. Such reimbursements are considered taxable income.

DIRECTORS & OFFICERS (D&O) INSURANCE: As an executive officer, you will automatically be covered by Biogen Idec's standard D&O insurance policy. A copy of this policy is enclosed with this letter.

AIR TRAVEL UPGRADE: You are entitled to fly first class on all U.S. transcontinental flights (e.g., Boston to San Diego). Overseas flights and other domestic flights are subject to the same policy as all other employees.

Biogen Idec will reimburse you for legal fees associated with the initial review of and the June 1, 2006 response memo to our original May 18, 2006 offer of employment; any additional fees incurred after June 1, 2006 in regards to legal review of this employment offer will be your responsibility. Subsequent to your employment date, any legal fees incurred in connection with a suit commenced by you to enforce the terms of this employment offer will be reimbursed by the Company only if you prevail in such suit. Prior to commencing any suit regarding a potential breach of the terms of this offer by the Company, the Company shall be provided written notice and an opportunity to cure the potential breach. Eligible legal fees must be for services provided by qualified legal advisors and must be accompanied by original detailed invoices. Such reimbursements are considered taxable income.

Employment with Biogen Idec is contingent on the satisfactory completion of a drug test. Please see Attachment E (ACTIONS REQUIRED IN ORDER TO BEGIN EMPLOYMENT) for information about our post-employment offer drug-testing program. You may also be required to complete a medical history review with our Occupational Health Department. If required, this review will be scheduled after your first day of employment.

Biogen Idec requires that all new employees be subject to a background check. This background check includes verification of employment history, educational and professional licenses, degrees, and/or credentials, a criminal records check, a Social Security number search, and verification of any degrees and other professional qualifications that your position responsibilities at Biogen Idec may warrant. When you complete your online Application for Employment (see below), you will be authorizing Biogen Idec to conduct these background checks. If you have any questions about the background check, please contact me for additional details.

Please complete the online "Application for Employment" and "Invitation to Self Identify" forms located at the following website: http://biogen.biogenidec.com/candidate/. On the Application of Employment, you will be prompted to enter an "Application Station Code". The code to enter is BGNDV01 (note: the last two characters are 'zero' one).

In order to protect Biogen Idec's substantial investment of time and money in the creation and maintaining of its confidential and proprietary information and good-will with its customers, vendors and other business partners, as a condition of employment you will be required to sign our Employee Proprietary Information and Inventions and Dispute Resolution Agreement on your first day of employment. A copy of the Agreement is enclosed with this letter.

The Federal government requires you to provide proper identification verifying your eligibility to work in the U.S. Please bring the appropriate identification, including your Social Security card (for number verification purposes), with you on your effective date of employment.

Please be advised that this offer will remain open through close of business on June 28, 2006, after which time it will be withdrawn and terminated if you have not accepted it.

Please confirm your acceptance of this offer of employment by signing this letter. Please also sign the enclosed drug screen authorization form and return both signed documents to Biogen Idec in the enclosed self-addressed, stamped envelope. The other copy of this letter is for your records.

We are very excited about the prospect of you joining Biogen Idec, and encourage you to accept this offer of employment. You and Jim Mullen can together set your effective date of employment.

Best regards,

/s/ Craig Eric Schneier
- ----------
Craig Eric Schneier, Ph.D.
Executive Vice President, Human Resources

cc: Jim Mullen
Mike Thomas

Your employment at Biogen Idec is employment at-will. This means that just as you are free to leave your employment at any time, with or without cause or notice, Biogen Idec also has the same right to terminate your employment at any time, with or without cause or notice.

I accept this offer of employment and acknowledge the contingencies of employment described above, including the at-will nature of my employment.

ACCEPTED:

/s/ Cecil B. Pickett	6/26/06	9/5/06
Cecil B. Pickett, Ph.D.	Signature Date	Start Date*

* Your employment is subject to Biogen Idec receiving negative results (i.e., no drugs found) from your drug test. If you have not received confirmation of your test results from Human Resources within a week prior to your start date, please contact me to confirm your test results prior to starting. Your effective date of employment must be a Monday (unless it is a holiday, in which case your start date will be the following Tuesday). Please notify me as soon as possible as to the Monday you can begin your employment, and indicate this date in the noted area above. Your effective date of employment must be on or before September 5, 2006.

NOTE: See the notice titled "ACTIONS REQUIRED IN ORDER TO BEGIN EMPLOYMENT" attached to this letter for additional actions required to begin employment and certain other information associated with this offer of employment.

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ATTACHMENT A

ONE-TIME SIGN-ON BONUS: CECIL B. PICKETT, PH.D.

1. Deferred Compensation Amount. The initial Deferred Compensation Amount credited will be $500,000, with Credited Interest from the date of your employment by the Company to the date of payment to Cecil B. Pickett, Ph.D. (the "Executive") or his Beneficiary.

   Credited Interest will be deemed compound interest earned on the initial amount as if it were invested in the Fixed Income Option under the Biogen Idec Inc. Supplemental Savings Plan (the "Supplemental Savings Plan") from time to time.

2. Benefit Amount. The Benefit Amount payable to the Executive (or Beneficiary) at any time will be the Executive's Deferred Compensation Amount at such time multiplied by his vested percentage at such time.

   The Executive's vested percentage at any time will be determined under the following table based upon his number of Years of Service at such time:

Years of Service	Vested Percentage
Less than one	0
One or more	100%

   Notwithstanding the foregoing, the Executive will become fully vested in the Benefit Amount if he is terminated by the Company (or a subsidiary or other affiliate) for reasons other than For Cause (as defined below), including termination due to disability, death or without cause. The Executive also becomes fully vested in the event of a Change in Control of the Company (as defined in the 2005 Omnibus Equity Plan).

   If the Executive terminates employment with the Company (or a subsidiary or other affiliate) under circumstances such that he is not fully vested (e.g., he voluntarily terminates his employment or is terminated For Cause), the non-vested portion of the Benefit Amount as of the date of termination of employment will be forfeited and cancelled.

3. Distribution Events and Timing of Distributions.

   (a) Unforeseeable Emergency. If the Executive incurs an Unforeseeable Emergency, he may request a distribution of an amount specified by him, up to a maximum equal to his vested Benefit Amount at such time or the amount reasonably needed to alleviate the Unforeseeable Emergency (including income taxes and penalties reasonably anticipated to be owed as a result of such distribution). Any such distribution will be subject to the approval of the Retirement Committee, both as to the existence of an Unforeseeable Emergency and the amount to be distributed, if any.

   A distribution on account of Unforeseeable Emergency will be made in a single payment following the Retirement Committee's approval of such distribution.

   (b) Death. In the event of the death of the Executive before the complete distribution of his vested Benefit Amount, his Beneficiary will receive the balance of his vested Benefit Amount.

   The Executive may designate one or more Beneficiaries and may revoke or change such a designation at any time. Any such designation, revocation or change must be in writing filed with the Retirement Committee. Any portion of the vested Benefit Amount payable upon the death of the Executive, but not disposed of by a designation of Beneficiary, will

be paid to the Executive's spouse if living at his death, otherwise to the Executive's estate.

A distribution on account of the Executive's death will be made in a single payment following the Retirement Committee's receipt of appropriate evidence of the Executive's death and of the right of any Beneficiary to receive such payment.

(c) Termination of Employment. Upon termination of the Executive's employment by the Company (and all of its subsidiaries and other affiliates), the Executive will receive distribution of his vested Benefit Amount (based upon the vested percentage as of the date of termination), payable in a lump sum. The payment will be made on the first day of the month next following the six-month anniversary of the Executive's date of termination of employment.

The Executive may make one change in the timing or form of payment under the preceding paragraph, provided that no such change may operate to accelerate any payment or violate any requirement of Internal Revenue Code ("Code") Section 409A or the regulations and rulings thereunder, including the following requirements:

(i) The Executive must make such change of election at least 12 months before the scheduled date for the first installment payment (in other words, such an election will become effective only if the Executive remains an employee of the Company or a subsidiary or other affiliate during the 12 months following the date of the change), and

(ii) The election extends the date for payment or the start date for installment payments by at least five years.

4. Miscellaneous.

(a) Unfunded Arrangement. This deferred compensation arrangement is unfunded and the Executive will not have any rights to any specific assets of the Company. The rights of the Executive (or any Beneficiary) are solely those of an unsecured, general creditor of the Company.

Notwithstanding the preceding paragraph, the Company may establish or contribute to an existing grantor trust to assist it in the provision of benefits hereunder, provided that no such trust is intended to cause this arrangement to be considered "funded" for purposes of Title of the Employee Retirement Income Security Act of 1974, as amended.

(b) No Assignment. The Executive (or Beneficiary) will have no power or right to transfer, assign, anticipate or otherwise encumber his deferred compensation benefits hereunder, and no such benefit will be payable to or subject to seizure or attachment by any creditor of the Executive (or Beneficiary), except as required by law.

(c) Tax Withholding. All distributions or payments hereunder to any person are subject to the withholding of income and other taxes to the extent required by law.

(d) Definitions of Terms. The following terms are defined or explained in the Supplemental Savings Plan and have the same meaning when used herein: Fixed Income Option, Year of Service, Disability, Unforeseeable Emergency and Termination of Employment. The Retirement Committee that administers the Supplemental Savings Plan will also administer the deferred compensation benefit hereunder.

For purposes of this Benefit Amount, termination by the Company For Cause means any of the following: (A) the Executive's conviction by a court of competent jurisdiction for felony criminal conduct; (B) the Executive's gross negligence or willful misconduct (unless he believed in good faith that the act or omission was in or not opposed to the interest of the Company (without intent on the Executive's part to gain therefrom, directly or indirectly, a profit to which he was not legally entitled)), in either case in the performance of the Executive's duties hereunder that results in a detriment that is material to the Company and its subsidiaries taken as a whole; or (C) the Executive's willful or intentional material breach of agreements regarding competing with the Company during or subsequent to employment with the Company, or of the Executive's Proprietary Information and Inventions Agreement that results in detriment that is material to the Company and its subsidiaries as a whole. Notwithstanding the foregoing, Cause shall not include any act or omission of which the Finance and Audit Committee of the Board (or the full Board) has had actual knowledge for at least six months without asserting that the act or omission constitutes Cause.

ATTACHMENT B

PERFORMANCE-BASED RESTRICTED STOCK UNIT PROGRAM: CECIL B. PICKETT, PH.D.
(ILLUSTRATION ONLY)

		PERFORMANCE SCORECARD METRICS (1)			
PERFORMANCE PERIOD	TOTAL POTENTIAL SHARE VEST	FINANCIAL (25% weight; 30,000 shares)	DEVELOPMENT (25% weight; 30,000 shares)	RESEARCH (PIPELINE) (25% weight, 30,000 shares)	ORGANIZATIONAL (25% weight; 30,000 shares)
10/1/2006 through 12/31/2007	30,000	Threshold EPS attainment (50% weight) Threshold Revenue attainment (50% weight)	Ensure at least _____ NMEs/ _____ NCEs enter pipeline, at phase 2 or later stage, resulting in___% increase in forecasted 2010-2015 revenue CAGR	Advance at least_____ research products into development by_____(50% weight) Advance_____ proof-of-concept products into pivotal trials by_____(50% weight)	Develop and gain CEO/BOD approval of EVP, R&D successor, based on pre-established criteria/ milestones (50% weight) Develop and gain approval of 5-year R&D strategic plan (50% weight)
1/1/2008 through 12/31/2008	30,000	TBD	TBD	TBD	TBD
1/1/2009 through 12/31/2009	30,000	TBD	TBD	TBD	TBD
	30,000	TBD	TBD	TBD	TBD
	120,000	30,000	30,000	30,000	30,000

(1) Awards not earned in a particular year are canceled (do not carry over to subsequent years).

ATTACHMENT C

BIOGEN IDEC RELOCATION AGREEMENT

This document will serve to acknowledge that I have accepted a position of employment from Biogen Idec, which will involve the relocation of my residence. Biogen Idec is willing to pay on my behalf, or reimburse me for, certain expenses that may be incurred in connection with such relocation, so long as I remain an employee of Biogen Idec for at least two years. I hereby accept Biogen Idec's offer of assistance as follows:

I acknowledge that Biogen Idec's agreement to pay on my behalf, or reimburse me for, certain expenses, which may be incurred in relocating my residence, including the nature and the amount, and the timing and method of such payment or reimbursement, shall be in accordance with Biogen Idec's relocation policies and procedures in effect at the time of my relocation.

Certain payments/reimbursements from Biogen Idec for relocation and housing will become taxable income to me.

If I voluntarily terminate my employment for reasons other than those described below, or Biogen Idec terminates my employment For Cause as described below, repayment will be required according to the following schedule: (i) if my employment terminates on or before the first anniversary of my date of hire, the full dollar amount of the relocation package I received must be repaid to the Company, or (ii) if my employment terminates on or before the second anniversary of my date of hire, half of the dollar amount of the relocation package I received must be repaid to the Company.

I shall pay to Biogen Idec all such amounts within thirty days of the effective date of termination of employment with Biogen Idec or by year-end, whichever comes first. Biogen Idec may deduct, withhold and retain all or any portion of the amount which I may be required to refund or repay to Biogen Idec hereunder from any wages, salary, vacation pay or severance pay which may be due and owing to me upon termination of employment. I shall remain liable to Biogen Idec for any amounts in excess of the sums so deducted, withheld and retained by Biogen Idec.

If I terminate my employment as a result of: (A) any material diminution in my duties, position, authority or reporting relationship that occurs within two years of my effective date of employment; (B) I cease to be a member of the Board of Directors due to not being nominated for election or re-election; (C) any reduction in my base salary or target bonus opportunity; (D) any relocation of the Company's principal executive offices which increases my daily commute by more than 100 miles on a round trip basis; or (E) breach of any material obligation of the Company under the offer letter which is not promptly cured after written notice, no repayment of relocation benefits will be required.

For purposes of this relocation benefit, termination by the Company For Cause means any of the following: (A) my conviction by a court of competent jurisdiction for felony criminal conduct; (B) my gross negligence or willful misconduct (unless I believed in good faith that the act or omission was in or not opposed to the interest of the Company (without intent on my part to gain therefrom, directly or indirectly, a profit to which I was not legally entitled)), in either case in the performance of my duties hereunder that results in a detriment that is material to the Company and its subsidiaries taken as a whole; or (C) my willful or intentional material breach of agreements regarding competing with the Company during or subsequent to employment with the Company, or of my Proprietary Information and Inventions Agreement that results in detriment that is material to the Company and its subsidiaries as a whole. Notwithstanding the foregoing, Cause shall not include any act or omission of which the Finance and Audit Committee of the Board (or the full Board) has had actual knowledge for at least six months without asserting that the act or omission constitutes Cause.

If, after incurring relocation expenses I reject the previously accepted offer of employment, I agree to repay Biogen idec all expenses within 10 days of notification of the amounts owed.

Except as stated above, I shall have no liability or responsibility to refund or repay to Biogen Idec any amounts paid by Biogen Idec on my behalf or reimbursed to me in connection with the relocation of my residence.

My signature below acknowledges that I have read this document and agree to its terms.

Cecil B. Pickett	
Employee Name (Please Print)	Social Security Number
/s/ Cecil B. Pickett	6/26/06
Employee Signature	Date

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ATTACHMENT D

EXECUTIVE SEVERANCE BENEFIT

You are entitled to severance benefits in the event your employment is terminated by Biogen Idec other than For Cause (as defined below), or if you terminate your employment as a result of: (A) any material diminution in your duties, position, authority or reporting relationship that occurs within two years of your effective date of employment; (B) you cease to be a member of the Board of Directors due to not being nominated for election or re-election; (C) any reduction in your base salary or target bonus opportunity; (D) any relocation of the Company's principal executive offices which increases your daily commute by more than 100 miles on a round trip basis; or (E) breach of any material obligation of the Company under the offer letter which is not promptly cured after written notice.

Definition of "For Cause." Termination by the Company For Cause means any of the following: (A) your conviction by a court of competent jurisdiction for felony criminal conduct; (B) your gross negligence or willful misconduct (unless you believed in good faith that the act or omission was in or not opposed to the interest of the Company (without intent on your part to gain therefrom, directly or indirectly, a profit to which you were not legally entitled)), in either case in the performance of your duties hereunder that results in a detriment that is material to the Company and its subsidiaries taken as a whole; or (C) your willful or intentional material breach of agreements regarding competing with the Company during or subsequent to employment with the Company, or of your Proprietary Information and Inventions Agreement that results in detriment that is material to the Company and its subsidiaries as a whole. Notwithstanding the foregoing, Cause shall not include any act or omission of which the Finance and Audit Committee of the Board (or the full Board) has had actual knowledge for at least six months without asserting that the act or omission constitutes Cause.

Your severance benefits will be comprised of (i) a lump sum payment (as calculated below) and (ii) upon completion of the appropriate forms, continuation of your participation in Biogen Idec's group medical and dental insurance plans, to the same extent permitted by COBRA and to the same extent such insurance is then provided to regular employees of Biogen Idec, including payment by you of a portion of the insurance premiums (i.e., the "Insurance Benefit").

The lump sum severance payment will be the lesser of 21 months and the number of months (prorated) between the effective date of termination and date on which you reach age 65, multiplied by the monthly equivalent of your target annual cash compensation at the time of your termination (i.e., one-twelfth of the sum of your then annual base salary plus target annual bonus).

The lump sum payment (less applicable taxes and other mandatory deductions as required by law) will be paid to you promptly following the later of (i) the termination of your employment with Biogen Idec and (ii) the effective date of a signed general release in favor of Biogen Idec (see below). The Insurance Benefit will continue until the earlier of (i) the date you become eligible to participate in the medical and dental insurance plan of a third party employer, (ii) the last day of the 21st month following the termination of your employment with Biogen Idec, or (iii) the last day of the month in which you reach age 65 (the "Insurance Benefit Period").

The following are examples of how the lump sum payment and Insurance Benefit Period are determined:

> If your employment with Biogen Idec is terminated and the amount of time between your effective date of termination and the date you reach age 65 is equal to or greater than 21 months, you will receive a lump sum payment equal to 21 months of your annualized target cash compensation and continue to participate in Biogen Idec's group medical and dental plans for 21 months, unless you become eligible to participate in another employer's medical and dental plans before that date.
>
> If your employment with Biogen Idec is terminated and the amount of time between your effective date of termination and the date you reach age 65 is six and one-half months, you will receive a lump sum payment equal to six and one-half months of your annualized target cash compensation and continue to

participate in Biogen Idec's group medical and dental plans through the last day of the month in which you reach age 65, unless you become eligible to participate in another employer's medical and dental plans before that date.

If required under Code Section 409A, a delay of six months may apply to any severance payment.

In addition, should the Company terminate your employment other than For Cause, you will be entitled to receive up to nine months of executive-level outplacement services, at the expense of Biogen Idec, from a recognized provider of such services chosen by Biogen Idec.

If at any time within two years following a Corporate Transaction or Corporate Change in Control (as such terms are defined in Biogen Idec's 2005 Omnibus Equity Plan) your employment is terminated by Biogen Idec or the succeeding corporate entity, other than For Cause (as such term is defined above), or you experience an Involuntary Employment Action (referred to below) and as a result you terminate your employment with Biogen Idec or the succeeding corporate entity, then, regardless of the length of your service with Biogen Idec and the succeeding corporate entity, and in lieu of the formula set forth above, you will receive a lump sum payment equivalent to 24 months of your then annual base salary and target annual bonus. In addition, you will be entitled to continue participating in Biogen Idec's group medical and dental plans for 24 months, unless you reach age 65 or become eligible to participate in another employer's medical and dental plans before that date. The term "Involuntary Employment Action" shall have the definition set forth in Biogen Idec's 2005 Omnibus Equity Plan, provided, however, that the term "Corporate Transaction" used in such definition shall be deemed to mean either a corporate transaction or change in control, as the case may be.

Payment and provision of the severance benefits described above are conditioned on your execution of a general release in favor of Biogen Idec, in form and substance reasonably acceptable to Biogen Idec, in respect to any and all claims relating to your employment and the termination of your employment with Biogen Idec. If you retire or voluntarily terminate your employment with Biogen Idec, or Biogen Idec terminates your employment For Cause (as such term is defined in Biogen Idec's 2005 Omnibus Equity Plan), or you do not provide the requisite general release, you will not be eligible to receive the severance benefits described above.

ATTACHMENT E

ACTIONS REQUIRED IN ORDER TO BEGIN EMPLOYMENT

You are covered by Biogen Idec's benefits the first day you are actively at work, but we need information to make sure our benefit providers and Payroll department know who you are.

Upon your acceptance of Biogen Idec's offer of employment, please visit our Company website, www.biogenidec.com. Under "Careers", select "More". On the right-hand side, click "For New Employees". This site contains the forms you must complete in order to add you to Biogen Idec's Payroll and Human Resources systems. Completion of these forms is required 7 days prior to your first day of employment at Biogen Idec. If you will be working outside of Cambridge, Research Triangle Park or San Diego, please send your forms to Arkia French, 14 Cambridge Center, Cambridge, MA, 02142. Further instructions are posted on the website when you log in to complete your forms.

YOUR USERNAME IS YOUR SOCIAL SECURITY NUMBER, AND YOUR PASSWORD

As part of Biogen Idec's employment practices, a drug-screening test is required to be competed 10 days prior to your first day of employment and we must conduct a background check. This background check includes verification of employment history, educational and professional licenses, degrees, and/or credentials, a criminal records check, a Social Security number search, and verification of any degrees and other professional qualifications that your position responsibilities at Biogen Idec may warrant. Your employment is subject to Biogen Idec's receipt of favorable results of these employment contingencies. If you have not received your confirmation from Human Resources to report to work, please contact me to confirm your results prior to starting. Your start day must be a Monday (unless that is a holiday, in which case your start day will be the following Tuesday). Please notify me as soon as possible of the Monday you can start and indicate this date on the signed offer letter you return.

IN ORDER TO BEGIN EMPLOYMENT, YOU MUST:

- Complete the Payroll and HR forms described above 7 days in advance of your first day of employment.

- Complete your drug screen 10 days in advance of your first day of employment.

If you are unable to complete the above as outlined, we can reschedule your start date, as needed.

I or someone else from Human Resources will greet you on your first day at 8:00 a.m. in the lobby of 10 Cambridge Center, Cambridge, MA. You will then be escorted to Benefits Orientation. If you desire to make other arrangements for Benefits Orientation, please let me know.

If you plan to park at a Biogen Idec facility on a regular basis, please bring the license plate number of the vehicle(s) you will be parking at the facility. Plate numbers are required in order to issue a parking access card.

We are pleased to welcome you to Biogen Idec. If you have any questions, please contact Mike Thomas (617-679-2038) or me (617-914-4500).

Req # 4965

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James C. Mullen, certify that:

1. I have reviewed this quarterly report of Biogen Idec Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2006

/s/ James C. Mullen
James C. Mullen
Chief Executive Officer and President

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Peter N. Kellogg, certify that:

1. I have reviewed this quarterly report of Biogen Idec Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2006

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

EXHIBIT 32.1

CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Biogen Idec Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2006

/s/ James C. Mullen
James C. Mullen
Chief Executive Officer and President
[principal executive officer]

Dated: November 9, 2006

/s/ Peter N. Kellogg
Peter N. Kellogg
Executive Vice President — Finance and Chief Financial Officer
[principal financial officer]

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.