ELAN CORP PLC
Form 20-F/A
June 28, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F/A

(Amendment No. 1)

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number: 001-13896

Elan Corporation, plc

(Exact name of Registrant as specified in its charter)

Ireland **Treasury Building, Lower Grand Canal Street,**

(Jurisdiction of incorporation

Dublin 2, Ireland

or organization)

(Address of principal executive offices)

William Daniel, Secretary

Elan Corporation, plc

Treasury Building, Lower Grand Canal Street

Dublin 2, Ireland

011-353-1-709-4000

liam.daniel@elan.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange on Which Registered**
American Depositary Shares (ADSs),	New York Stock Exchange
representing Ordinary Shares,	
Par value 0.05 each (Ordinary Shares)	
Ordinary Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 594,949,536 Ordinary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP þ International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No þ

EXPLANATORY NOTE

This Amendment No. 1 to Form 20-F (this Amendment) for the fiscal year ended December 31, 2012, originally filed on February 12, 2013 (the Form 20-F) of Elan Corporation, plc is being filed solely to amend Item 18 of the Form 20-F. Item 18 has been amended to:

- Restate the Consolidated Balance Sheet and the Consolidated Statement of Changes in Shareholders Equity as of, and for the year ended, December 31, 2012 to reverse an entry reducing additional paid-in capital (APIC) by $6,199.9 million with a corresponding offset to the accumulated deficit of the Company.

In accordance with the provisions of Irish Company Law, we initiated formal court proceedings during 2012 to reduce our share capital by cancelling some of our share premium account (which does not constitute distributable reserves under Irish Company Law), with a corresponding reduction in and elimination of our retained loss (accumulated deficit) to create distributable reserves. On July 19, 2012, we obtained Irish High Court approval to reduce the share premium account (APIC) of the Company by $6,199.9 million and use these reserves to offset the accumulated deficit of the Company, with the balance to be treated as retained earnings which shall be available for distribution. Accordingly, in the Form 20-F filed on February 12, 2013, we presented this reduction in share premium (APIC) with the corresponding offset to accumulated deficit to reflect the components of equity in accordance with Irish Company Law. Because a reduction in accumulated deficit mandated through formal court proceedings is not recognized under U.S. GAAP, in this Amendment, we have reversed the entry by increasing APIC and reducing accumulated surplus by $6,199.9 million within shareholders equity on the Consolidated Balance Sheet as of December 31, 2012.

No financial periods prior to 2012 were impacted. The impact of reversing the reduction in the share premium account (APIC) of the Company by $6,199.9 million with a corresponding offset to the accumulated deficit of the Company does not have any impact on the Consolidated Statement of Operations or the Consolidated Statement of Cash Flows of the Company for the year ended December 31, 2012. In addition, the reversal has no impact on the Company s International Financial Reporting Standards accounting treatment for the transaction or on the legally available distributable reserves of the Company under Irish Company Law. Additional information has been provided in Note 26 to the Consolidated Financial Statements on the distributable reserves of the Parent Company under Irish Company Law.

- Provide additional detail on the accounting policy for Research and Development in Note 2 to the Consolidated Financial Statements;

- Provide additional information in Note 11 to the Consolidated Financial Statements on recognition of deferred interest as a deferred tax asset; and

- Amend the presentation of discontinued operations in Note 37 to the Consolidated Financial Statements and provide additional information on restricted transactions of Elan Corporation, plc and its subsidiaries, as guarantors.

This Amendment also contains new certifications pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, which are attached hereto as Exhibits 12.1, 12.2, 13.1 and 13.2.

All other Items of the Form 20-F are unaffected by the changes described above and have been omitted from this Amendment. This Amendment continues to speak as of the date of the original filing of the Form 20-F and except for the changes noted above, does not purport to amend, update or restate (other than as described above) the information contained in the Form 20-F filed on February 12, 2013, or reflect any events that have occurred after the Form 20-F was filed. This Amendment should be read in conjunction with the Company s SEC filings made subsequent to the filing of the 2012 Form 20-F.

Item 18. ***Consolidated Financial Statements.***

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements of Elan Corporation, plc and subsidiaries

Notes to the Consolidated Financial Statements

1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Elan Corporation, plc:

We have audited the accompanying consolidated balance sheets of Elan Corporation, plc and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in shareholders equity and cash flows for each of the years in the three-year period ended December 31, 2012. In connection with our audits of the consolidated financial statements, we have also audited financial statement Schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elan Corporation, plc and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Elan Corporation plc s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 12, 2013 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG

Dublin, Ireland

February 12, 2013

Elan Corporation, plc

Consolidated Statements of Operations

For the Years Ended December 31, 2012, 2011 and 2010

	Notes	2012	2011	2010
		(In millions, except per share data)		
Continuing Operations				
Product revenue		$ 0.2	$ 4.0	$ 43.1
Contract revenue				1.0
Total revenue	3	0.2	4.0	44.1
Cost of sales		0.2	0.8	12.2
Gross margin			3.2	31.9
Operating expenses:				
Selling, general and administrative expenses		113.6	107.2	124.2
Research and development expenses		95.0	106.8	128.5
Other net charges	6	168.9	24.3	52.8
Settlement reserve charge	7			206.3
Net gain on divestment of business	5			(1.0)
Total operating expenses		377.5	238.3	510.8
Operating loss		(377.5)	(235.1)	(478.9)
Net interest and investment gains and losses:				
Net interest expense	8	56.6	104.9	118.4
Net loss on equity method investments	9	221.8	81.1	26.0
Net charge on debt retirement	10	76.1	47.0	3.0
Net investment losses/(gains)	17	1.2	(2.6)	(12.8)
Net interest and investment gains and losses		355.7	230.4	134.6
Net loss before income taxes		(733.2)	(465.5)	(613.5)
Benefit from income taxes	11	(360.5)	(12.0)	(52.2)
Net loss from continuing operations		$ (372.7)	$ (453.5)	$ (561.3)
Discontinued Operations				
Net income from discontinued operations (net of tax)	12	235.3	1,014.0	236.6
Net (loss)/income for the year		$ (137.4)	$ 560.5	$ (324.7)
Basic and diluted net income/(loss) per Ordinary Share				
Continuing operations	13	$ (0.63)	$ (0.77)	$ (0.96)
Discontinued operations	13	0.40	1.73	0.40
Total attributable to the ordinary shareholders of the Parent Company	13	$ (0.23)	$ 0.95	$ (0.56)
Basic and diluted weighted-average number of Ordinary Shares outstanding continuing, discontinued and total operations		592.4	587.6	584.9

The accompanying notes are an integral part of these Consolidated Financial Statements.

3

Elan Corporation, plc

Statements of Consolidated Comprehensive Income

For the Years Ended December 31, 2012, 2011 and 2010

	Notes	2012	2011	2010
			(In millions)	
Net (loss)/income for the year		$ (137.4)	$ 560.5	$ (324.7)
Other comprehensive income/(loss):				
Unrealized gains/(losses) on investment securities	17	17.5	(1.5)	(2.8)
Unrealized loss on defined benefit pension plans	29	(24.7)	(3.9)	(4.1)
Currency translation adjustments			11.1	(0.1)
Other comprehensive (loss)/income		(7.2)	5.7	(7.0)
Total comprehensive (loss)/income		$ (144.6)	$ 566.2	$ (331.7)
Total comprehensive (loss)/income arises from:				
Continuing operations		$ (379.9)	$ (447.8)	$ (568.3)
Discontinued operations		235.3	1,014.0	236.6
Total comprehensive (loss)/income		$ (144.6)	$ 566.2	$ (331.7)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Elan Corporation, plc

Consolidated Balance Sheets

As of December 31, 2012 and 2011

	Notes	2012 (restated)	2011
		(In millions, except shares and par values)	
ASSETS			
Current Assets:			
Cash and cash equivalents		$ 431.3	$ 271.7
Restricted cash and cash equivalents current	14	2.6	2.6
Assets held for sale	15	220.1	
Accounts receivable	16	193.5	167.7
Investment securities current	17	167.9	0.3
Inventory	18		23.8
Deferred tax assets current	11	380.9	26.2
Prepaid and other current assets	19	13.2	25.7
Total current assets		1,409.5	518.0
Property, plant and equipment, net	20	12.7	83.2
Goodwill and other intangible assets, net	21	99.0	309.9
Equity method investments	9	14.0	675.8
Investment securities non-current	17	8.6	9.8
Restricted cash and cash equivalents non-current	14	13.7	13.7
Deferred tax assets non-current	11	64.6	118.9
Other assets	22	18.1	24.5
Total assets		$ 1,640.2	$ 1,753.8
LIABILITIES AND SHAREHOLDERS EQUITY			
Current Liabilities:			
Accounts payable		$ 45.6	$ 46.4
Accrued and other current liabilities	23	314.1	229.9
Total current liabilities		359.7	276.3
Long-term debt	24	600.0	615.0
Other liabilities	23	62.3	60.7
Total liabilities		1,022.0	952.0
Shareholders Equity:			
Ordinary Shares, 0.05 par value, 810,000,000 shares authorized 594,949,536 and 589,346,275 shares issued and outstanding at December 31, 2012 and 2011, respectively	25	36.5	36.2
Executive Shares, 1.25 par value, 1,000 shares authorized, no shares issued or outstanding at December 31, 2012 and 1,000 shares issued and outstanding at December 31, 2011	25		
B Executive Shares, 0.05 par value, 25,000 shares authorized, no shares issued or outstanding at December 31, 2012 and 21,375 shares issued and outstanding at December 31, 2011	25		
Additional paid-in capital	26	6,552.3	6,485.9
Accumulated deficit	26	(5,926.0)	(5,682.9)
Accumulated other comprehensive loss	27	(44.6)	(37.4)
Shareholders equity		618.2	801.8
Total liabilities and shareholders equity		$ 1,640.2	$ 1,753.8

The accompanying notes are an integral part of these Consolidated Financial Statements.

Elan Corporation, plc

Consolidated Statements of Changes In Shareholders Equity

For the Years Ended December 31, 2012, 2011 and 2010

	Number of Shares	Share Capital	Additional Paid-in Capital (APIC) (restated)	Accumulated Surplus/ (Deficit) (restated)	Accumulated Other Comprehensive Loss	Total Shareholders Equity
				(In millions)		
Balance at December 31, 2009	583.9	$ 35.8	$ 6,413.2	$ (5,918.7)	$ (36.1)	$ 494.2
Total comprehensive loss				(324.7)	(7.0)	(331.7)
Net tax shortfalls related to equity awards			(1.2)			(1.2)
Stock issued, net of issuance costs	1.3	0.1	1.7			1.8
Share-based compensation			31.2			31.2
Balance at December 31, 2010	585.2	35.9	6,444.9	(6,243.4)	(43.1)	194.3
Total comprehensive income				560.5	5.7	566.2
Stock issued, net of issuance costs	4.1	0.3	6.0			6.3
Share-based compensation			35.0			35.0
Balance at December 31, 2011	589.3	36.2	6,485.9	(5,682.9)	(37.4)	801.8
Total comprehensive loss				(137.4)	(7.2)	(144.6)
Distribution in specie				(105.7)		(105.7)
Stock issued, net of issuance costs	5.6	0.3	20.5			20.8
Share-based compensation			45.9			45.9
Balance at December 31, 2012	594.9	$ 36.5	$ 6,552.3	$ (5,926.0)	$ (44.6)	$ 618.2

The accompanying notes are an integral part of these Consolidated Financial Statements.

Elan Corporation, plc

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
		(In millions)	
Cash flows from operating activities:			
Net (loss)/income	$ (137.4)	$ 560.5	$ (324.7)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Amortization of deferred revenue	(0.3)	(0.5)	(0.3)
Amortization of financing costs	3.1	5.3	5.4
Depreciation and amortization	24.8	35.8	63.3
Gain on sale of investment securities		(2.6)	(12.8)
Impairment of property, plant and equipment	64.3	10.0	11.0
Net loss/(gain) on divestment of business	17.1	(654.5)	
EDT divestment transaction costs		(34.1)	
Net loss on equity method investments	229.0	81.8	26.0
Loss on disposal of equity method investment	13.3		
Settlement reserve charge			206.3
Share-based compensation	45.9	35.3	31.5
(Recognition)/write-down of deferred tax assets	(300.4)	51.0	0.1
Net charge on debt retirement	76.1	47.0	3.0
Derivative fair value loss/(gain)	0.3		(1.2)
Other	(0.1)	(0.8)	2.6
Net changes in assets and liabilities:			
(Increase)/decrease in accounts receivable	(25.8)	23.9	0.8
Decrease/(increase) in prepaid and other assets	6.5	(2.2)	10.7
(Increase)/decrease in inventory	(1.1)	15.2	14.2
Decrease in debt interest accrual	(2.1)	(6.9)	(0.7)
Increase/(decrease) in accounts payable and accruals and other liabilities	42.1	(213.5)	33.0
Decrease in working capital from divestment of EDT business		(70.9)	
Net cash provided by/(used in) operating activities	55.3	(120.2)	68.2
Cash flows from investing activities:			
Decrease/(increase) in restricted cash		206.8	(191.4)
Proceeds from disposal of property, plant and equipment		1.3	0.1
Purchase of property, plant and equipment	(10.3)	(27.3)	(40.9)
Purchase of intangible assets	(1.8)	(2.5)	(3.6)
Purchase of equity method investment		(20.0)	
Purchase of investment securities	(0.7)	(0.6)	(0.9)
Funding of equity method investment in Janssen AI	(76.9)		
Sale of investment securities		2.8	16.4
Receipt of deferred consideration	12.0		
Proceeds from sale of equity method investment	380.9		
Proceeds from business disposals		500.0	4.3
Net cash provided by/(used in) investing activities	303.2	660.5	(216.0)
Cash flows from financing activities:			
Cash distribution to Prothena Corporation, plc	(125.0)		
Proceeds from share based compensation stock issuances	20.8	6.3	1.8
Repayment of loans	(682.5)	(697.3)	(455.0)
Net proceeds from debt issuances	587.9		187.1

Net cash used in financing activities	(198.8)	(691.0)	(266.1)
Effect of exchange rate changes on cash	(0.1)	(0.1)	(0.1)
Net increase/(decrease) in cash and cash equivalents	159.6	(150.8)	(414.0)
Cash and cash equivalents at beginning of year	271.7	422.5	836.5
Cash and cash equivalents at end of year	$ 431.3	$ 271.7	$ 422.5
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ (54.0)	(108.1)	$ (117.2)
Income taxes	$ (0.8)	(1.5)	$ (0.4)
Non-cash investing activities:			
Purchase of equity method investment	$	(528.6)	$
Transfer of assets, net of liabilities to Prothena Corporation, plc (Note 28).	$ 3.2		$

The accompanying notes are an integral part of these Consolidated Financial Statements.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Elan Corporation, plc, is an Irish public limited company (also referred to hereafter as we, our, us, Elan or the Company), headquartered in Dublin, Ireland. We were incorporated as a private limited company in Ireland in December 1969 and became a public limited company in January 1984. Our principal executive offices are located at Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland and our telephone number is 353-1-709-4000.

On February 6, 2013, we announced that we have entered into an asset purchase agreement with an affiliate of Biogen Idec Inc. (the Asset Purchase Agreement) to transfer to Biogen Idec Inc. (Biogen Idec) all *Tysabri*® intellectual property (IP) and other assets related to the development, manufacturing and commercialization of *Tysabri* (natalizumab) and other products licensed to Biogen Idec and its affiliates under our collaboration arrangement with Biogen Idec (the *Tysabri* Transaction). As a result of this transaction, Biogen Idec and its affiliates will have sole authority over and exclusive worldwide rights to the development, manufacturing and commercialization of *Tysabri*. In accordance with the terms of the transaction, upon consummation of the transaction, the existing collaboration arrangements with Biogen Idec will be terminated and Biogen Idec will pay to us an upfront payment of $3.25 billion and continuing royalties on *Tysabri* in-market sales. We will earn a royalty of 12% of global net sales of *Tysabri* during the first 12 months following the closing of the transaction. Thereafter, we will earn a royalty of 18% of global net sales up to $2.0 billion each year, and a 25% royalty on annual global net sales above $2.0 billion. The transaction is expected to close in the first half of 2013, subject to the satisfaction of certain conditions, including customary regulatory approvals.

2. Significant Accounting Policies

The following accounting policies have been applied in the preparation of our Consolidated Financial Statements.

(a) Basis of consolidation and presentation of financial information

The accompanying Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). In addition to the financial statements included in this Form 20-F, we also prepare separate Consolidated Financial Statements, included in our Annual Report, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), which differ in certain significant respects from U.S. GAAP. The Annual Report under IFRS is a separate document from this Form 20-F.

Unless otherwise indicated, our financial statements and other financial data contained in this Form 20-F are presented in U.S. dollars ($). The accompanying Consolidated Financial Statements include our financial position, results of operations and cash flows and those of our wholly-owned subsidiaries. All intercompany amounts have been eliminated. We use the equity method to account for equity investments in instances in which we own common stock and have the ability to exercise significant influence, but not control, over the investee.

Our directors believe that we have adequate resources to continue in operational existence for at least the next 12 months and that it is appropriate to continue to prepare our Consolidated Financial Statements on a going concern basis.

(b) Restatement

In this Form 20-F/A, we have restated the Consolidated Balance Sheet as of December 31, 2012 and the Consolidated Statement of Changes in Shareholders Equity for the year ended December 31, 2012 to reverse an entry reducing additional paid-in capital, (APIC) by $6,199.9 million with a corresponding offset to the accumulated deficit of the Company.

This entry was posted following the initiation of formal court proceedings by the Company during 2012 to create income available for distribution during 2012. On July 19, 2012, we obtained Irish High Court approval to reduce the share premium account (APIC) of the Company by $6,199.9 million and use these reserves to offset the accumulated deficit of the Company, with the balance to be treated as income which shall be available for distribution. Accordingly, we initially presented this reduction in share premium (APIC) with the corresponding offset to accumulated deficit in our 2012 Consolidated Financial Statements to reflect the components of equity in accordance with Irish Company Law. As a reduction in accumulated deficit mandated through formal court proceedings is not recognized under U.S. GAAP, we have reversed the entry by increasing APIC and reducing the accumulated surplus by $6,199.9 million within shareholders equity on the Consolidated Balance Sheet as of December 31, 2012.

No financial periods prior to 2012 were impacted. The impact of reversing the reduction in the share premium account (APIC) of the Company by $6,199.9 million with a corresponding offset to the accumulated deficit of the Company does not have any impact on the Consolidated Statement of Operations or the Consolidated Statement of Cash Flows of the Company for the year ended December 31, 2012, nor does it impact the legally available distributable reserves of the Company under Irish Company Law.

(c) Use of estimates

The preparation of the Consolidated Financial Statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates are used in determining items such as the carrying amounts of intangible assets, property, plant and equipment and equity method investments, revenue recognition, sales rebates and discounts, the fair value of share-based compensation, the accounting for contingencies and income taxes, among other items. Because of the uncertainties inherent in such estimates, actual results may differ materially from these estimates.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(d) Fair value measurements

Fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including our own credit risk.

We disclose our financial instruments that are measured at fair value on a recurring basis using the following fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2: Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs are generally unobservable and typically reflect management s estimates of assumptions that market participants would use in pricing the asset or liability.

(e) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities on acquisition of three months or less.

(f) Accounts receivable

Accounts receivable are initially recognized at fair value, which represents the invoiced amounts, less adjustments for estimated revenue deductions such as product returns, chargebacks and cash discounts. An allowance for doubtful accounts is established based upon the difference between the recognized value and the estimated net collectible amount with the estimated loss recognized within operating expenses in the Consolidated Statement of Operations. When an account receivable balance becomes uncollectible, it is written off against the allowance for doubtful accounts.

(g) Investment securities and impairment

Marketable equity securities and debt securities are classified into one of three categories including trading, held-to-maturity, or available-for-sale. The classification depends on the purpose for which the financial assets were acquired.

Marketable equity and debt securities are considered trading when purchased principally for the purpose of selling in the near term. These securities are recorded as current investments and are carried at fair value. Unrealized holding gains and losses on trading securities are included in other income. We did not hold any trading securities at December 31, 2012 and 2011.

Marketable debt securities are considered held-to-maturity when we have the positive intent and ability to hold the securities to maturity. These securities are carried at amortized cost, less any impairment. We did not hold any held-to-maturity securities at December 31, 2012 and 2011.

Marketable equity and debt securities not classified as trading or held-to-maturity are considered available-for-sale. These securities are recorded as either current or non-current investments and are carried at fair value, with unrealized gains and losses included in accumulated other comprehensive income/(loss) (OCI) in shareholders equity. The assessment for impairment of marketable securities classified as available-for-sale is based on established financial methodologies, including quoted market prices for publicly traded equity and debt securities.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Non-marketable equity securities are carried at cost, less write-down-for-impairments, and are adjusted for impairment based on methodologies, including the Black-Scholes option-pricing model, the valuation achieved in the most recent private placement by an investee, an assessment of the impact of general private equity market conditions, and discounted projected future cash flows.

The factors affecting the assessment of impairments include both general financial market conditions and factors specific to a particular company. In the case of equity classified as available-for-sale, a significant and prolonged decline in the fair value of the security below its carrying amount is considered in determining whether the security is impaired. If any such evidence exists, an impairment loss is recognized.

(h) Inventory

Finished goods inventory is valued at the lower of cost or market value.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is computed using the straight-line method based on estimated useful lives as follows:

Buildings	15-40 years
Plant and equipment	3-10 years
Leasehold improvements	Shorter of expected useful life or lease term

Land is not depreciated as it is deemed to have an indefinite useful life.

Where events or circumstances indicate that the carrying amount of property, plant and equipment may not be recoverable, we review the carrying value for impairment. The carrying amount of the asset is not deemed recoverable if its carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of that asset. In such event, an impairment loss is recognized for the excess of the carrying amount over the asset s fair value.

(j) Leasing

Property, plant and equipment acquired under a lease that transfers substantially all of the risks and rewards of ownership to us (a capital lease) are capitalized. Amounts payable under such leases, net of finance charges, are shown as current or non-current as appropriate. An asset acquired through capital lease is stated at an amount equal to the lower of its fair value or the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses, and is included in property, plant and equipment. Finance charges on capital leases are expensed over the term of the lease to give a constant periodic rate of interest charge in proportion to the capital balances outstanding.

All other leases that are not capital leases are considered operating leases. Rentals on operating leases are charged to expense on a straight-line basis over the period of the lease. Leased property, plant and equipment sub-let to third parties are classified according to their substance as either direct financing or operating leases. All such arrangements that we have entered into as lessor are operating leases. Income received as lessor is recognized on a straight-line basis over the period of the lease.

(k) Goodwill, other intangible assets and impairment

Goodwill is not amortized, but instead is tested for impairment at least annually.

Intangible assets with estimable useful lives are amortized on a straight-line basis over their respective estimated useful lives to their estimated residual values and, as with other long-lived assets such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, we compare undiscounted cash flows expected to be

10

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

generated by an asset to the carrying amount of the asset. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. We determine fair value using the income approach based on the present value of expected cash flows. Our cash flow assumptions consider historical and forecasted revenue and operating costs and other relevant factors.

We review our goodwill for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The goodwill impairment test is a two-step process and is performed at the reporting unit level. Following the divestment of our Elan Drug Technologies (EDT) business on September 16, 2011, Elan is comprised of a single reporting unit. Prior to the two-step process, we first assess qualitative factors to determine whether it is necessary to perform the two-step goodwill impairment test. The qualitative factors assessed include, but are not limited to, the macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant events affecting the reporting unit and the share price performance of the Company. If, after assessing the relevant qualitative factors, we determine that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill, then the first and second steps of the goodwill impairment test are not performed. If, after assessing the relevant qualitative factors, we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill, then the first step of the goodwill impairment test is performed.

Under the first step, we compare the fair value of each reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and step two does not need to be performed. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment charge, if any. The second step compares the implied fair value of the reporting-unit goodwill with the carrying amount of that goodwill, and any excess of the carrying amount over the implied fair value is recognized as an impairment charge. The implied fair value of goodwill is determined, by allocating the fair value of a reporting unit to individual assets and liabilities. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. In evaluating goodwill for impairment, we determine the fair values of the reporting units using the income approach, based on the present value of expected cash flows.

(l) Equity method investments

Janssen AI

As part of the transaction in September 2009 whereby Janssen Alzheimer Immunotherapy (Janssen AI), a subsidiary of Johnson & Johnson, acquired substantially all of our assets and rights related to our Alzheimer s Immunotherapy Program (AIP) collaboration with Wyeth (which has been acquired by Pfizer Inc. (Pfizer)), we received a 49.9% equity investment in Janssen AI. Johnson & Johnson also committed to fund up to an initial $500.0 million towards the further development and commercialization of the AIP to the extent the funding is required by the collaboration. Any required additional expenditures in respect of Janssen AI s obligations under the AIP collaboration in excess of the initial $500.0 million funding commitment is required to be funded by Elan and Johnson & Johnson in proportion to their respective shareholdings up to a maximum additional commitment of $400.0 million in total. In the event that further funding is required beyond the $400.0 million, such funding will be on terms determined by the board of Janssen AI, with Johnson & Johnson and Elan having a right of first offer to provide additional funding. If we fail to provide our share of the $400.0 million commitment or any additional funding that is required for the development of the AIP, and if Johnson & Johnson elects to fund such an amount, our interest in Janssen AI could, at the option of Johnson & Johnson, be commensurately reduced. We have recorded our investment in Janssen AI as an equity method investment on the Consolidated Balance Sheet as we have the ability to exercise significant influence, but not control, over the investee. The investment was initially recognized based on the estimated fair value of the investment acquired, representing the fair value of our proportionate 49.9% share of Janssen AI s total net assets at inception, which were comprised of the AIP assets and the asset created by the Johnson & Johnson contingent funding commitment.

Under the equity method, investors are required to recognize their share of the earnings or losses of an investee in the periods for which they are reported in the financial statements of the investee as this is normally considered an appropriate means of recognizing increases or decreases in the economic resources underlying the investments. However, Johnson & Johnson had committed to wholly fund up to an initial $500.0 million of development and commercialization expenses incurred by Janssen AI so the recognition by Elan of a share of Janssen AI losses that are solely funded by Johnson & Johnson s $500.0 million commitment would result in an

11

inappropriate decrease in Elan s share of the economic resources underlying the investment in Janssen AI. Accordingly, until the $500.0 million funding commitment was fully utilized, we applied the hypothetical liquidation at book value (HLBV) method to determine how an increase or decrease in net assets of Janssen AI affected Elan s interest in the net assets of Janssen AI on a period by period basis. Under the HLBV method, an investor determines its share of the earnings or losses of an investee by determining the difference between its claim on the investee s book value at the end and beginning of the period.

During 2012, the remaining balance of the initial $500.0 million funding commitment, provided by Johnson & Johnson to Janssen AI, which amounted to $57.6 million at December 31, 2011, was spent. Subsequent to the full utilization of the initial $500.0 million funding commitment, we provided funding of $76.9 million to Janssen AI during 2012.

On August 6, 2012, Johnson & Johnson issued a press release announcing the discontinuation of the development of bapineuzumab intravenous in mild to moderate Alzheimer s disease based on the co-primary clinical endpoints not being met in the Janssen AI-led Phase 3 clinical studies. As a result of the discontinuation, we recorded a non-cash impairment charge of $117.3 million against the carrying value of our equity method investment in Janssen AI, representing the full initial estimated value of Elan s 49.9% share of the Janssen AI AIP assets. Janssen AI recorded an impairment charge of $678.9 million, representing its full carrying value of the AIP assets.

As of December 31, 2011, the carrying value of our Janssen AI equity method investment of $130.6 million was approximately $185 million below our share of Janssen AI s reported book value of its net assets. This difference related to the lower estimated value of Janssen AI s AIP assets when the equity method investment was initially recorded, and the asset created by the Johnson & Johnson $500.0 million contingent funding commitment. The difference in the carrying values of the AIP assets was eliminated during 2012 when Elan and Janssen AI recorded impairment charges of $117.3 million and $678.9 million, respectively, representing their respective initial estimated values of the AIP assets. In relation to the asset created by the Johnson & Johnson contingent funding commitment, which was a limited life asset, the basis difference was amortized to the Consolidated Statement of Operations on a pro rata basis; based on the actual amount of Janssen AI losses that were solely funded by Johnson & Johnson in each period as compared to the total $500.0 million, which was the total amount solely funded by Johnson & Johnson. This basis difference was fully amortized during 2012 when the remaining balance of the initial $500.0 million funding commitment provided by Johnson & Johnson to Janssen AI was spent.

As a result of the equity method investment losses incurred to date, relating to our share of the losses in excess of the losses funded solely by Johnson & Johnson s initial $500.0 million funding commitment, and the impairment charge of $117.3 million recognized during 2012, there is an excess of losses over the investment made in Janssen AI at December 31, 2012 of $11.0 million. This amount has been recorded as a current liability at December 31, 2012. In addition, Elan provided further funding to Janssen AI of $29.9 million during January 2013, which will be recorded in the 2013 financial statements.

Proteostasis Therapeutics, Inc.

We have recorded our investment in Proteostasis Therapeutics Inc. (Proteostasis) as an equity method investment on the Consolidated Balance Sheet as we have the ability to exercise significant influence, but not control, over the investees. The investment was initially recognized based on the estimated fair value of the investment acquired. Under the equity method, we recognize our share of the earnings or losses of the investee, adjusted for the amortization of the basis differences, in the Consolidated Statement of Operations with a corresponding increase or decrease in the carrying amount of the investments on the Consolidated Balance Sheet. We recognize our share of the earnings or losses of Proteostasis in the same periods for which they are reported in the financial statements of the investee.

Alkermes plc

Following the completion of the merger between Alkermes, Inc. and EDT on September 16, 2011, we held approximately 25% of the outstanding ordinary shares of Alkermes plc (31.9 million shares) and accounted for this investment as an equity method investment as we had the ability to exercise significant influence, but not control, over the investee. Under the equity method, we recognize our share of the earnings or losses of the investee, adjusted for the amortization of the basis differences, in the Consolidated Statement of Operations with a corresponding increase or decrease in the carrying amount of the investments on the Consolidated Balance Sheet. The investment was initially recognized based on the estimated fair value of the investment acquired.

12

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In March 2012, we sold 76% (24.15 million ordinary shares) of our shareholding in Alkermes plc. Following this sale, we continued to own 7.75 million ordinary shares of Alkermes plc, representing an approximate 6% equity interest. Following the sale of the 24.15 million ordinary shares, our remaining equity interest in Alkermes plc was classified as an available-for-sale investment in current assets and equity method accounting no longer applied to this investment.

On January 31, 2013, we announced that we had agreed to sell all of our remaining 7.75 million ordinary shares of Alkermes plc. The sale closed on February 6, 2013 and we received proceeds of $169.7 million.

(m) Financing costs

Debt financing costs are comprised of transaction costs and original issue discount on borrowings. Debt financing costs are allocated to financial reporting periods over the term of the related debt using the effective interest rate method.

The carrying amount of debt includes any related unamortized original issue discount. All other unamortized debt financing costs are presented as deferred financing costs in other assets.

(n) Derivative financial instruments

We enter into transactions in the normal course of business using various financial instruments in order to hedge against exposures to fluctuating exchange and interest rates. We use derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. A derivative is a financial instrument or other contract whose value changes in response to some underlying variable, that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable and that will be settled at a future date. We do not enter into derivative financial instruments for trading or speculative purposes. We entered into a number of forward foreign exchange contracts at various rates of exchange during 2012 that required us to sell euro for U.S. dollars. At December 31, 2012, we held a net forward foreign exchange derivative liability of $0.3 million relating to outstanding forward foreign exchange contracts that expire on various dates during the first half of 2013. We did not hold any interest rate swap contracts or forward currency contracts at December 31, 2011.

Our accounting policies for derivative financial instruments are based on whether they meet the criteria for designation as cash flow or fair value hedges. A designated hedge of the exposure to variability in the future cash flows of an asset or a liability, or of a forecasted transaction, is referred to as a cash flow hedge. A designated hedge of the exposure to changes in fair value of an asset or a liability is referred to as a fair value hedge. The criteria for designating a derivative as a hedge include the assessment of the instrument s effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the probability that the underlying transaction will occur. For derivatives with cash flow hedge accounting designation, we report the gain or loss from the effective portion of the hedge as a component of accumulated OCI and reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction. For derivatives with fair value hedge accounting designation, we recognize gains or losses from the change in fair value of these derivatives, as well as the offsetting change in the fair value of the underlying hedged item, in earnings. Fair value gains and losses arising on derivative financial instruments not qualifying for hedge accounting are reported in our Consolidated Statement of Operations. The carrying amount of derivative financial instruments is reported within current assets or other current liabilities.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(o) Discontinued operations and assets held for sale

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and (i) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of a disposal transaction and (ii) the entity will not have significant continuing involvement in the operations of the component after the disposal transaction.

Any gain or loss from the disposal of a business, together with the results of these operations until the date of disposal, is reported separately in the discontinued operations line of the Consolidated Statement of Operations and comparative information is restated accordingly. Cash flow information related to discontinued operations is disclosed separately in the notes to the financial statements.

Assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable.

Tysabri

On February 6, 2013, we announced that we have entered into an asset purchase agreement with Biogen Idec to transfer to Biogen Idec all *Tysabri* IP and other assets related to *Tysabri*. As a result of this transaction, Biogen Idec will have sole authority over and exclusive worldwide rights to the development, manufacturing and commercialization of *Tysabri*. In accordance with the terms of the transaction, upon consummation of the transaction, the existing collaboration arrangements with Biogen Idec will be terminated and Biogen Idec will pay to us an upfront payment of $3.25 billion and continuing royalties on *Tysabri* in-market sales. We will earn a royalty of 12% of global net sales of *Tysabri* during the first 12 months following the closing of the transaction. Thereafter, we will earn a royalty of 18% of global net sales up to $2.0 billion each year, and a 25% royalty on annual global net sales above $2.0 billion. The transaction is expected to close in the first half of 2013, subject to the satisfaction of certain conditions, including customary regulatory approvals. As a result of the agreement to dispose of the *Tysabri* asset rights, the results of *Tysabri* for the year ended December 31, 2012 are presented as a discontinued operation in the Consolidated Statement of Operations and the comparative amounts have been restated to reflect this classification. The assets and liabilities of the *Tysabri* business have been presented as held for sale as of December 31, 2012.

Prothena

On December 20, 2012, we completed the separation of a substantial portion of our drug discovery business platform (the Prothena Business) into a new, publicly traded company incorporated in Ireland named Prothena Corporation, plc (Prothena) pursuant to a demerger under Irish Company law and a pro rata distribution of Prothena ordinary shares was made to our shareholders of one Prothena ordinary share for every 41 Elan ordinary shares or Elan American Depositary Shares (ADSs) held. Since we do not have significant or direct involvement in the future operations of the Prothena Business, the financial results of the Prothena Business for the period up to December 20, 2012, the effective date of the separation, have been presented as a discontinued operation and comparative amounts have been restated to reflect this classification.

EDT

Following the disposal of the EDT business in September 2011, we did not report the results of EDT as a discontinued operation as we continued to have significant continuing involvement in the operations of Alkermes plc through our 25% equity interest.

On March 13, 2012, we announced that we had sold 76% (24.15 million ordinary shares) of our shareholding in Alkermes plc for net proceeds of $380.9 million after deduction of underwriter and other fees. Following this sale, we continued to own 7.75 million ordinary shares of Alkermes plc, representing an approximate 6% equity interest in Alkermes plc. Following the disposal of 76% of our shareholding in Alkermes plc, our shareholding ceased to qualify as an equity method investment and as a result, the results of EDT are presented as a discontinued operation in the Consolidated Statements of Operations for the comparative periods.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(p) Revenue

We recognize revenue from the sale of our products and from royalties earned.

We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, title passes, the price is fixed or determinable, and collectability is reasonably assured. Revenue is recorded net of applicable sales tax and sales discounts and allowances, which are described below.

(i) The sale of our products consists of the sale of pharmaceutical drugs, primarily to wholesalers and physicians.

(ii) We earn royalties on licensees sales of our products or third-party products that incorporate our technologies. Royalties are recognized as earned in accordance with the contract terms when royalties can be reliably measured and collectability is reasonably assured.

The income statement financial information relating to *Tysabri* for the years ended December 31, 2012, 2011 and 2010 are presented as discontinued operations in our Consolidated Financial Statements and related notes thereto. *Tysabri* was developed in collaboration with Biogen Idec. Until the *Tysabri* Transaction closes, *Tysabri* continues to be marketed in collaboration with Biogen Idec and, subject to certain limitations imposed by the parties, we share with Biogen Idec most development and commercialization costs. Biogen Idec is responsible for manufacturing the product. In the United States, we purchase *Tysabri* from Biogen Idec and are responsible for distribution. Consequently, we record as revenue the net sales of *Tysabri* in the U.S. market. We purchase product from Biogen Idec as required at a price, which includes the cost of manufacturing, plus Biogen Idec s gross profit on *Tysabri* and this cost, together with royalties payable to other third parties, is included in cost of sales. Outside of the United States, Biogen Idec is responsible for distribution and we record as revenue our share of the profit or loss on rest of world (ROW) sales of *Tysabri*, plus the reimbursement from Biogen Idec of Elan s directly incurred expenses on these sales, which are primarily comprised of royalties we incur and are payable by us to third parties and we record in cost of sales.

(q) Sales discounts and allowances

Revenue from continuing operations is presented in the Consolidated Statement of Operations and revenue from discontinued operations is included in net income from discontinued operations that is also presented in the Consolidated Statement of Operations. We recognize revenue on a gross revenue basis (except for *Tysabri* revenue outside of the United States) and make various deductions to arrive at net revenue from continuing and discontinued operations. These adjustments are referred to as sales discounts and allowances and are described in detail below. Sales discounts and allowances include charge-backs, managed healthcare rebates and other contract discounts, Medicaid rebates, cash discounts, sales returns, and other adjustments. Estimating these sales discounts and allowances is complex and involves significant estimates and judgments, and we use information from both internal and external sources, including historical experience, to generate reasonable and reliable estimates. In accordance with the terms of the *Tysabri* Transaction announced on February 6, 2013, whereby we will dispose of our *Tysabri* IP and other rights related to *Tysabri*, and the existing collaboration arrangements with Biogen Idec will be terminated, we will retain responsibility for all discounts and allowances liabilities related to *Tysabri* sales up to the closing of the transaction.

We do not conduct our sales using the consignment model. All of our product sales transactions are based on normal and customary terms whereby title to the product and substantially all of the risks and rewards transfer to the customer upon either shipment or delivery. Furthermore, we do not have an incentive program that would compensate a wholesaler for the costs of holding inventory above normal inventory levels thereby encouraging wholesalers to hold excess inventory.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Charge-backs

In the United States, we participate in charge-back programs with a number of entities, principally the U.S. Department of Defense, the U.S. Department of Veterans Affairs, Group Purchasing Organizations and other parties whereby pricing on products is extended below wholesalers list prices to participating entities. These entities purchase products through wholesalers at the lower negotiated price, and the wholesalers charge the difference between these entities acquisition cost and the lower negotiated price back to us. We account for charge-backs by reducing accounts receivable in an amount equal to our estimate of charge-back claims attributable to a sale. We determine our estimate of the charge-backs primarily based on historical experience on a product-by-product and program basis, and current contract prices under the charge-back programs. We consider vendor payments, estimated levels of inventory in the wholesale distribution channel, and our claim processing time lag and adjust the accrual and revenue periodically throughout each year to reflect actual and future estimated experience.

Medicaid rebates

In the United States, we are required by law to participate in state government-managed Medicaid programs as well as certain other qualifying federal and state government programs whereby discounts and rebates are provided to participating state and local government entities. Discounts and rebates provided through these other qualifying federal and state government programs are included in our Medicaid rebate accrual and are considered Medicaid rebates for the purposes of this discussion. We account for Medicaid rebates by establishing an accrual in an amount equal to our estimate of Medicaid rebate claims attributable to a sale. We determine our estimate of the Medicaid rebates accrual primarily based on our estimates of Medicaid claims, Medicaid payments, claims processing time lag, inventory in the distribution channel, as well as legal interpretations of the applicable laws related to the Medicaid and qualifying federal and state government programs, and any new information regarding changes in the Medicaid programs regulations and guidelines that would impact the amount of the rebates on a product-by-product basis. We adjust the accrual and revenue periodically throughout each year to reflect actual and future estimated experience.

Cash and other discounts

Cash and other discounts include cash discounts, generally at 2% of the sales price, as an incentive for prompt payment by customers in the United States. We account for cash discounts by reducing accounts receivable by the full amount of the discounts. We consider payment performance of each customer and adjust the accrual and revenue periodically throughout each year to reflect actual experience and future estimates.

Managed healthcare rebates and other contract discounts

We offer rebates and discounts to managed healthcare organizations in the United States. We account for managed healthcare rebates and other contract discounts by establishing an accrual equal to our estimate of the amount attributable to a sale. We determine our estimate of this accrual primarily based on historical experience on a product-by-product and program basis and current contract prices. We consider the sales performance of products subject to managed healthcare rebates and other contract discounts, processing claim lag time and estimated levels of inventory in the distribution channel and adjust the accrual and revenue periodically throughout each year to reflect actual and future estimated experience.

Sales returns

We account for sales returns by reducing accounts receivable in an amount equal to our estimate of revenue recorded for which the related products are expected to be returned.

Our sales return accrual is estimated principally based on historical experience, the estimated shelf life of inventory in the distribution channel, price increases, and our return goods policy (goods may only be returned six months prior to expiration date and for up to 12 months after expiration date). We also take into account product recalls and introductions of generic products. All of these factors are used to adjust the accrual and revenue periodically throughout each year to reflect actual and future estimated experience.

In the event of a product recall, product discontinuance or introduction of a generic product, we consider a number of factors, including the estimated level of inventory in the distribution channel that could potentially be returned, historical experience, estimates of the severity of generic product impact, estimates of continuing demand and our return goods policy. We consider the reasons for, and impact of, such actions

and adjust the sales returns accrual and revenue as appropriate.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other adjustments

In addition to the sales discounts and allowances described above, we make other sales adjustments primarily related to estimated obligations for credits to be granted to wholesalers under wholesaler service agreements we have entered into with many of our pharmaceutical wholesale distributors in the United States. Under these agreements, the wholesale distributors have agreed, in return for certain fees, to comply with various contractually defined inventory management practices and to perform certain activities such as providing weekly information with respect to inventory levels of product on hand and the amount of out-movement of product. As a result, we, along with our wholesale distributors, are able to manage product flow and inventory levels in a way that more closely follows trends in prescriptions. We generally account for these other sales discounts and allowances by establishing an accrual in an amount equal to our estimate of the adjustments attributable to the sale. We generally determine our estimates of the accruals for these other adjustments primarily based on contractual agreements and other relevant factors, and adjust the accruals and revenue periodically throughout each year to reflect actual experience.

Use of information from external sources

We use information from external sources to identify prescription trends and patient demand, including inventory pipeline data from the three major drug wholesalers in the United States. The inventory information received from these wholesalers is a product of their record-keeping process and excludes inventory held by intermediaries to whom they sell, such as retailers and hospitals. We also receive information from IMS Health, a supplier of market research to the pharmaceutical industry, which we use to project the prescription demand-based sales for our pharmaceutical products. Our estimates are subject to inherent limitations of estimates that rely on third-party information, as certain third-party information is itself in the form of estimates, and reflect other limitations including lags between the date as of which third-party information is generated and the date on which we receive such information.

(r) Advertising expenses

We expense the costs of advertising as incurred. Advertising expenses were $Nil in 2012 (2011: $0.6 million; 2010: $0.7 million).

(s) Research and development

R&D costs are expensed as incurred. Acquired in-process research and development (IPR&D) purchased from others for a specific research and development project with no alternative future uses is expensed as incurred. Costs to acquire IPR&D purchased from others for use in research and development activities which has alternative future uses, and the fair value of IPR&D acquired through a business combination, are capitalized as indefinite-lived intangible assets until the completion or abandonment of the related research and development activity. IPR&D capitalized as an intangible asset is not amortized but is tested for impairment annually or when events or circumstances indicate that the fair value may be below the carrying value of the asset. If and when development is complete, which generally occurs when regulatory approval to market a product is obtained, the associated asset is deemed finite-lived and amortized on a straight-line basis over the estimated useful life of the asset. The method of amortization chosen best reflects the manner in which individual intangible assets are consumed.

(t) Income Taxes

We account for income tax expense based on income before taxes using the asset and liability method. Deferred tax assets (DTAs) and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using the enacted tax rates projected to be in effect for the year in which the differences are expected to reverse. DTAs are recognized for the expected future tax consequences, for all deductible temporary differences and operating loss and tax credit carryforwards. A valuation allowance is required for DTAs if, based on available evidence, it is more likely than not that all or some of the asset will not be realized due to the inability to generate sufficient future taxable income.

Significant estimates are required in determining our provision for income taxes. Some of these estimates are based on management s interpretations of jurisdiction-specific tax laws or regulations and the likelihood of settlement related to tax audit issues. Various internal and external factors may have favorable or unfavorable effects on our future effective income tax rate. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, changes in estimates of prior years items, past and future levels of R&D spending, likelihood of settlement, and changes in overall levels of income before taxes.

17

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We recognize the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We account for interest and penalties related to unrecognized tax benefits in income tax expense.

To determine the allocation of our total tax provision between continuing and discontinued operations, we separately recalculated the tax provision for continuing operations only and allocated the difference between this tax amount and the total tax provision to determine the tax for discontinued operations for each of the disclosed periods.

(u) Accumulated other comprehensive income/(loss)

Comprehensive income/(loss) is comprised of our net income or loss and OCI. OCI includes certain changes in shareholders equity that are excluded from net income. Specifically, we include in OCI changes in the fair value of unrealized gains and losses on our investment securities, certain foreign currency translation adjustments, and adjustments relating to our defined benefit pension plans.

Comprehensive income/(loss) for the years ended December 31, 2012, 2011 and 2010 has been reflected in the Statements of Consolidated Comprehensive Income and in the Consolidated Statements of Changes in Shareholders Equity.

(v) Foreign operations

Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. The resulting monetary assets and liabilities are translated into U.S. dollars at exchange rates prevailing at subsequent balance sheet dates, and the resulting gains and losses are recognized in the Consolidated Statements of Operations and, where material, separately disclosed.

The functional currency of Elan and most of our subsidiaries is U.S. dollars. For those subsidiaries with a non-U.S. dollar functional currency, their assets and liabilities are translated using year-end rates and income and expenses are translated at average rates. The cumulative effect of exchange differences arising on consolidation of the net investment in overseas subsidiaries are recognized as OCI in the Statements of Consolidated Comprehensive Income and in the Consolidated Statements of Changes in Shareholders Equity.

(w) Share-based compensation

Share-based compensation expense for equity-settled awards made to employees and directors is measured and recognized based on estimated grant date fair values. These awards include employee stock options, restricted stock units (RSUs) and stock purchases related to our employee equity purchase plan (EEPP).

Share-based compensation cost for RSUs awarded to employees and directors is measured based on the closing fair market value of the Company s shares on the date of grant. Share-based compensation cost for stock options awarded to employees and directors and shares issued under our EEPP is estimated at the grant date based on each option s fair value as calculated using an option-pricing model. The value of awards expected to vest is recognized as an expense over the requisite service periods.

Share-based compensation expense for equity-settled awards to non-employees in exchange for goods or services is based on the fair value of the awards on the measurement date; which is the earlier of the date at which the commitment for performance by the non-employees to earn the awards is reached and the date at which the non-employees performance is complete. We have determined that the expected vest date is the measurement date for awards granted to non-employees.

Estimating the fair value of share-based awards as of the grant or vest date using an option-pricing model, such as the binomial model, is affected by our share price as well as assumptions regarding a number of complex variables. These variables include, but are not limited to, the expected share price volatility over the term of the awards, risk-free interest rates, and actual and projected employee exercise behaviors.

18

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(x) Pensions and other employee benefit plans

We have two defined benefit pension plans covering employees based in Ireland. These plans were closed to new entrants from March 31, 2009. These plans are managed externally and the related pension costs and liabilities are assessed at least annually in accordance with the advice of a qualified professional actuary. Two significant assumptions, the discount rate and the expected rate of return on plan assets, are important elements of expense and/or liability measurement. We evaluate these assumptions at least annually, with the assistance of an actuary. Other assumptions involve employee demographic factors such as retirement patterns, mortality, turnover and the rate of compensation increase. We use a December 31 measurement date and all plan assets and liabilities are reported as of that date. The cost or benefit of plan changes, which increase or decrease benefits for prior employee service, is included in expense on a straight-line basis over the period the employee is expected to receive the benefits.

We recognize actuarial gains and losses using the corridor method. Under the corridor method, to the extent that any cumulative unrecognized net actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of the plan assets, that portion is recognized over the expected average remaining working lives of the plan participants. Otherwise, the net actuarial gain or loss is recorded in OCI.

We recognize the funded status of benefit plans in our Consolidated Balance Sheet. In addition, we recognize as a component of OCI the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic pension cost of the period.

An event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future services is a curtailment. A gain arising on a curtailment is recorded in the Consolidated Statement of Operations to the extent that such a gain exceeds any net loss included in OCI. A loss arising on a curtailment is recorded in the Consolidated Statement of Operations to the extent that such a loss exceeds any net gain included in OCI.

We also have a number of defined contribution benefit plans. The cost of providing these plans is expensed as incurred.

(y) Contingencies

We assess the likelihood of any adverse outcomes to contingencies, including legal matters, as well as the potential range of probable losses. We record accruals for such contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. If an unfavorable outcome is probable, but the amount of the loss cannot be reasonably estimated, we estimate the range of probable loss and accrue the most probable loss within the range. If no amount within the range is deemed more probable, we accrue the minimum amount within the range. If neither a range of loss nor a minimum amount of loss is estimable, then appropriate disclosure is provided, but no amounts are accrued.

(z) Non-cash distribution to shareholders

On December 20, 2012, we completed the separation of the Prothena Business into a new, publicly traded company incorporated in Ireland. The issued share capital of Prothena was admitted to trading on the NASDAQ Global Market on December 21, 2012. The separation of the Prothena Business from Elan was completed through a demerger under Irish law. The demerger was effected by Elan transferring its wholly-owned subsidiaries comprising the Prothena Business to Prothena, in exchange for Prothena issuing Prothena ordinary shares directly to Elan shareholders, on a pro rata basis. Prothena s issuance of its outstanding shares constituted a deemed in specie distribution by Elan to Elan shareholders (a distribution to shareholders of non-cash assets). Each Elan shareholder received one Prothena ordinary share for every 41 Elan ordinary shares or Elan ADSs held. In connection with the separation of the Prothena Business, we made a cash contribution to Prothena, which together with the consideration for 18% of Prothena s outstanding ordinary shares, totaled $125.0 million.

The demerger is recorded based on the carrying value of the net assets that were transferred to Prothena in connection with the separation and distribution. The total value of the Prothena in specie distribution to the shareholders of Elan in connection with the demerger was $105.7 million.

19

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(aa) Recent accounting pronouncements

There have been no Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB) which we have not yet adopted that we expect to have an impact on our consolidated financial position, results of operations or cash flows.

3. Revenue

Revenue for the years ended December 31 consisted of the following (in millions):

	2012	2011	2010
Product revenue:			
Royalties	$ 0.7	$ 2.7	$ 1.6
Azactam®	(0.5)	0.9	27.2
Maxipime®		0.4	8.2
Prialt®			6.1
Total product revenue	0.2	4.0	43.1
Contract revenue			1.0
Total revenue	$ 0.2	$ 4.0	$ 44.1

Royalties of $0.7 million (2011: $2.7 million; 2010: $1.6 million) relate to legacy products previously owned by us.

We ceased distributing Azactam and Maxipime in 2010. The revenue and adjustments for these products in 2011 and 2012 relates to adjustments to discounts and allowances associated with sales prior to the cessation of distribution. We divested our Prialt assets and rights in May 2010.

4. Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). Our CODM has been identified as Mr. G. Kelly Martin, chief executive officer (CEO). On September 16, 2011, we announced the completion of the merger between Alkermes, Inc. and EDT. Prior to the divestment of the EDT business, our business was organized into two business units: BioNeurology and EDT, and our CEO reviewed the business from this perspective. Following the divestment of EDT, we are organized in a single operating segment structure. Segment performance is evaluated based on operating income/(loss).

For the years ended December 31, 2012, 2011 and 2010, our continuing and discontinued operations revenue is presented below by geographical area. Similarly, total assets, property, plant and equipment, and goodwill and intangible assets are presented below on a geographical basis at December 31, 2012 and 2011.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue by region (by destination of customers) (in millions):

		2012	2011	2010
United States		$ 0.2	1.2	37.8
Ireland			1.7	1.9
Rest of world			1.1	4.4
Total revenue	continuing operations	$ 0.2	$ 4.0	$ 44.1
United States		886.0	866.6	785.0
Ireland			36.0	54.1
Rest of world		316.6	339.4	286.5
Total revenue	discontinued operations	$ 1,202.6	$ 1,242.0	$ 1,125.6
Total revenue	continuing and discontinued operations	$ 1,202.8	$ 1,246.0	$ 1,169.7

Total assets by region (in millions):

	2012	2011
Ireland	$ 755.4	$ 920.0
United States	793.9	753.8
Rest of world	90.9	80.0
Total assets	$ 1,640.2	$ 1,753.8

Property, plant and equipment by region (in millions):

	2012	2011
United States	$ 8.9	$ 78.4
Ireland	3.8	4.8
Total property, plant and equipment	$ 12.7	$ 83.2

Goodwill and other intangible assets by region (in millions):

	2012	2011
United States	$ 79.4	$ 192.1
Ireland	10.9	109.1
Rest of world	8.7	8.7

Total goodwill and other intangible assets	$ 99.0	$ 309.9

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Major customers

The following customer or collaborator contributed to 10% or more of our revenue from continuing and discontinued operations in 2012, 2011 and 2010:

	2012	2011	2010
AmerisourceBergen Corporation	74%	60%	52%
Biogen Idec	26%	25%	22%

No other customer or collaborator accounted for more than 10% of our revenue from continuing and discontinued operations in 2012, 2011 or 2010.

5. Net Gain on Divestment of Business

In 2010, we recorded a net gain of $1.0 million relating to a transaction cost adjustment on the 2009 divestment of substantially all of Elan s assets and rights related to our AIP collaboration with Wyeth (which has been acquired by Pfizer) to Janssen AI. For additional information on this transaction, refer to Note 9.

The net loss recorded on divestment of the Prothena Business during 2012 and the net gain recorded on divestment of the EDT business during 2011 are reported as part of the net income from discontinued operations reporting line. For an analysis of the net gain/(loss) on the divestment of the Prothena and EDT businesses, refer to Note 12.

6. Other Net Charges

The principal items classified as other net charges include facilities and other asset impairment charges, severance, restructuring and other costs, IPR&D costs, Cambridge collaboration termination charge, legal settlements and a net loss on divestment of the Prialt business. These items have been treated consistently from period to period. We believe that disclosure of significant other charges is meaningful because it provides additional information in relation to analyzing certain items.

Other net charges for the years ended December 31 consisted of (in millions):

	2012	2011	2010
(a) Facilities and other asset impairment charges	$107.5	$15.5	$16.7
(b) Severance, restructuring and other costs	42.4	8.8	16.1
(c) In-process research and development costs	11.0		6.0
(d) Cambridge collaboration	8.0		
(e) Legal settlements			12.5
(f) Divestment of Prialt business			1.5
Total other net charges	$168.9	$24.3	$52.8

(a) Facilities and other asset impairment charges

During 2012, we incurred facilities and other asset impairment charges of $107.5 million, which is primarily comprised of asset impairment charges of $66.1 million and lease termination charges of $34.6 million relating to the planned closure of the South San Francisco facility following the separation of the Prothena Business and cessation of our remaining early stage research activities. We also incurred an additional onerous lease charge of $6.4 million relating to EDT s King of Prussia, Pennsylvania site which closed in 2011, due to a reassessment of the probable sub-lease income to be achieved over the remaining term of the lease.

22

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2011, we incurred facilities and other asset impairment charges of $15.5 million, which included asset impairment charges of $3.6 million and lease charges of $11.9 million relating to the consolidation of our facilities in South San Francisco and the closure of EDT s King of Prussia, Pennsylvania site.

During 2010, we incurred additional facilities and other asset impairment charges of $16.7 million, which included asset impairment charges of $11.0 million and lease charges of $5.7 million relating to a consolidation of facilities in South San Francisco as a direct result of the realignment of our business.

(b) Severance, restructuring and other costs

During 2012, we incurred severance and restructuring charges of $42.4 million, principally relating to the planned closure of the South San Francisco facility and associated reduction in headcount following the separation of the Prothena Business and cessation of our remaining early stage research activities.

During 2011 and 2010, we incurred severance, restructuring and other costs of $8.8 million and $16.1 million, respectively, principally relating to a realignment and restructuring of our R&D organization and reduction of related support activities as well as the reduction in our general and administrative (G&A) activities following the divestment of the EDT business.

(c) In-process research and development costs

During 2012, we commenced a Phase 2 study of oral ELND005 as an adjunctive maintenance treatment in patients with Bipolar I Disorder. On the commencement of this trial, we incurred an IPR&D charge of $11.0 million related to a milestone payment to Transition Therapeutics Inc. (Transition) in accordance with the terms of the modification to the Collaboration Agreement agreed with Transition in December 2010. For further information on our Collaboration Agreement with Transition, please refer to Note 36 of the Consolidated Financial Statements.

In-process research and development costs (IPR&D) charges in 2010 also include a credit of $3.0 million associated with the termination of the License Agreement with PharmatrophiX Inc. (PharmatrophiX), offset by the $9.0 million charge related to the payment to Transition when the modification of the Collaboration Agreement was agreed.

(d) Cambridge collaboration termination charge

Following the cessation of our early stage research activities, we terminated our Collaboration Agreement with the University of Cambridge and incurred a charge of $8.0 million.

(e) Legal settlements

During 2010, we reached an agreement in principle with the direct purchaser class plaintiffs with respect to nifedipine. As part of the settlement, we agreed to pay $12.5 million in settlement of all claims associated with the litigation. In January 2011, the U.S. District Court for the District of Columbia approved the settlement and dismissed the case.

(f) Divestment of Prialt business

We divested our Prialt assets and rights to Azur Pharma International Limited (Azur, which has since been acquired by Jazz Pharmaceuticals plc) in May 2010 and recorded a net loss on divestment of $1.5 million, which is comprised of total consideration of $14.6 million less the net book value of Prialt assets and transaction costs. The total consideration used to calculate the loss on divestment was comprised of cash proceeds received in 2010 of $5.0 million and the present value of deferred non-contingent consideration at the close of the transaction of $9.6 million. During 2012, we received the deferred non-contingent consideration of $12.0 million. We are also entitled to receive additional performance-related milestones and royalties.

23

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Settlement Reserve Charge

In December 2010, we finalized the agreement-in-principle with the U.S. Attorney s Office for the District of Massachusetts to resolve all aspects of the U.S. Department of Justice s investigation of sales and marketing practices for Zonegran® (zonisamide), an antiepileptic prescription medicine that we divested in 2004. During 2010, we recorded a $206.3 million reserve charge for the settlement, interest and related costs and the settlement was paid in March 2011.

This resolution of the Zonegran investigation could give rise to other investigations or litigation by state government entities or private parties.

8. Net Interest Expense

Net interest expense for the years ended December 31 consisted of the following (in millions):

	2012	2011	2010
Interest expense:			
2016 Notes issued October 2009	$ 32.2	$ 52.3	$ 54.5
2016 Notes issued August 2010	10.4	16.7	6.5
6.25% Notes	9.3		
2013 Fixed Rate Notes		31.8	40.9
2013 Floating Rate Notes		0.4	5.2
2011 Floating Rate Notes			9.4
Amortization of deferred financing costs	3.1	5.3	5.4
Foreign exchange (gain)/loss	1.2	(2.0)	(2.5)
Other	1.0	1.3	0.2
Interest expense	$ 57.2	$ 105.8	$ 119.6
Interest income:			
Cash and cash equivalents interest	$ (0.4)	$ (0.7)	$ (1.2)
Investment interest	(0.2)	(0.2)	
Interest income	$ (0.6)	$ (0.9)	$ (1.2)
Net interest expense	$ 56.6	$ 104.9	$ 118.4

For additional information on our debt, refer to Note 24 to the Consolidated Financial Statements.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Equity Method Investments

The carrying amount of equity method investments at December 31 of each year consisted of the following (in millions):

	Janssen AI	Proteostasis	Alkermes plc	Total
At January 1, 2010	$ 235.0	$	$	$ 235.0
Net loss on equity method investments	(26.0)			(26.0)
At December 31, 2010	209.0			209.0
Addition		20.0	528.6	548.6
Net loss on equity method investments continuing operations	(78.4)	(2.7)		(81.1)
Net loss on equity method investments discontinued operations			(0.7)	(0.7)
At December 31, 2011	130.6	17.3	527.9	675.8
Share of net losses of equity method investment continuing operations	(101.2)	(3.3)		(104.5)
Impairment of equity method investment continuing operations	(117.3)			(117.3)
Net loss on equity method investment discontinued operations			(7.2)	(7.2)
Addition	76.9			76.9
Disposal of equity method investment			(394.2)	(394.2)
Reclassification to available for sale investment			(126.5)	(126.5)
Reclass of excess of losses over investment to current liabilities	11.0			11.0
At December 31, 2012	$	$ 14.0	$	$ 14.0

Janssen AI

In September 2009, Janssen AI, a newly formed subsidiary of Johnson & Johnson, acquired substantially all of the assets and rights related to our AIP collaboration with Wyeth (which has been acquired by Pfizer). In consideration for the transfer of these assets and rights, we received a 49.9% equity interest in Janssen AI. In general, Elan is entitled to a 49.9% share of all net profits generated by Janssen AI beginning from the date Janssen AI becomes net profitable and certain royalty payments upon the commercialization of products under the AIP collaboration. Johnson & Johnson also committed to fund up to $500.0 million towards the further development and commercialization of the AIP to the extent the funding is required by the collaboration. Any required additional expenditures in respect of Janssen AI s obligations under the AIP collaboration in excess of the initial $500.0 million funding commitment is required to be funded by Elan and Johnson & Johnson in proportion to their respective shareholdings up to a maximum additional commitment of $400.0 million in total. In the event that further funding is required beyond the $400.0 million, such funding will be on terms determined by the board of Janssen AI, with Johnson & Johnson and Elan having a right of first offer to provide additional funding. If we fail to provide our share of the $400.0 million commitment or any additional funding that is required for the development of the AIP, and if Johnson & Johnson or a third party elects to fund such an amount, our interest in Janssen AI could, at the option of Johnson & Johnson, be commensurately reduced. We have recorded our investment in Janssen AI as an equity method investment on the Consolidated Balance Sheet as we have the ability to exercise significant influence, but not control, over the investee. The investment was initially recognized based on the estimated fair value of the investment acquired, representing the fair value of our proportionate 49.9% share of Janssen AI s total net assets at inception, which were comprised of the AIP assets and the asset created by the Johnson & Johnson contingent funding commitment.

During 2012, the remaining balance of the initial $500.0 million funding commitment, which amounted to $57.6 million at December 31, 2011, was spent. Subsequent to the full utilization of the initial $500.0 million funding commitment, we provided funding of $76.9 million to Janssen AI during 2012. At December 31, 2012, there was an excess of losses over investment in Janssen AI of $11.0 million (2011: $Nil), which is

included in current liabilities. In addition, we provided funding to Janssen AI of $29.9 million in January 2013, which will be recorded in the 2013 Consolidated Financial Statements.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On August 6, 2012, Johnson & Johnson issued a press release announcing the discontinuation of the development of bapineuzumab intravenous in mild to moderate Alzheimer s disease based on the co-primary clinical endpoints not being met in the Janssen AI-led Phase 3 clinical studies. As a result of the discontinuation, we recorded a non-cash impairment charge of $117.3 million on our equity method investment in Janssen AI, representing the full initial estimated value of Elan s 49.9% share of the Janssen AI AIP assets. Janssen AI recorded an impairment charge of $678.9 million representing its full carrying value of the AIP assets.

Under the equity method, investors are required to recognize their share of the earnings or losses of an investee in the periods for which they are reported in the financial statements of the investee as this is normally considered an appropriate means of recognizing increases or decreases in the economic resources underlying the investments. However, Johnson & Johnson committed to wholly fund up to an initial $500.0 million of development and commercialization expenses incurred by Janssen AI so the recognition by Elan of a share of Janssen AI losses that were solely funded by Johnson & Johnson s $500.0 million commitment would have resulted in an inappropriate decrease in Elan s share of the economic resources underlying the investment in Janssen AI. Accordingly, until the $500.0 million funding commitment was utilized, we applied the HLBV method to determine how an increase or decrease in net assets of Janssen AI affected Elan s interest in the net assets of Janssen AI on a period by period basis. Under the HLBV method, an investor determines its share of the earnings or losses of an investee by determining the difference between its claim on the investee s book value at the end and beginning of the period. Elan s claim on Janssen AI s book value as of December 31, 2012 was $Nil (2011: $117.3 million, after adjusting for basis differences) due to the non-cash impairment charge of $117.3 million recorded in 2012 representing the full initial estimated value of Elan s 49.9% share of the Janssen AI AIP assets.

As of December 31, 2011, the carrying value of our Janssen AI equity method investment of $130.6 million was approximately $185 million below our share of Janssen AI s reported book value of its net assets. This difference related to the lower estimated value of Janssen AI s AIP assets when the equity method investment was initially recorded, and the asset created by the Johnson & Johnson $500.0 million contingent funding commitment. The difference in the initial estimated values of the AIP assets was eliminated during 2012 when Elan and Janssen AI recorded impairment charges of $117.3 million and $678.9 million, respectively, representing their respective initial estimated values of the AIP assets. In relation to the asset created by the Johnson & Johnson contingent funding commitment, which was a limited life asset, the basis difference was amortized to the Consolidated Statement of Operations on a pro rata basis; based on the actual amount of Janssen AI losses that were solely funded by Johnson & Johnson in each period as compared to the total $500.0 million, which was the total amount solely funded by Johnson & Johnson. This basis difference was fully amortized during 2012 when the remaining balance of the initial $500.0 million funding commitment provided by Johnson & Johnson to Janssen AI was spent. During 2012, we recorded amortization expense of $13.3 million (2011: $50.9 million; 2010: $26.0 million).

The net loss on the Janssen AI equity method investment for the year ended December 31, 2012 of $218.5 million (2011: $78.4 million; 2010: $26.0 million) was comprised of $87.9 million (2011: $Nil; 2010: $Nil) relating to our share of the losses of Janssen AI in excess of the losses funded solely by Johnson & Johnson s initial $500.0 million funding commitment; the amortization expense of $13.3 million (2011: $50.9 million; 2010: $26.0 million) related to the basis differences described above and the non-cash impairment charge of $117.3 million (2011: $Nil, 2010: $Nil) representing the full initial estimated value of Elan s 49.9% share of the Janssen AI AIP assets. The net loss on the Janssen AI equity method investment for the year ended December 31, 2011 also includes a charge of $27.5 million to correct an immaterial error from prior periods relating to our accounting for our equity method investment in Janssen AI.

Summarized balance sheet amounts of Janssen AI are presented below at December 31 of each year (in millions):

	2012	2011
Current assets	$ 41.9	$ 12.9
Non-current assets	$ 9.3	$ 688.6
Current liabilities	$ 60.6	$ 60.2
Non-current liabilities	$ 0.9	$ 8.9

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summarized income statement amounts of Janssen AI is presented below for the years to December 31, 2012, 2011 and 2010 (in millions):

	2012	2011	2010
R&D expenses for the year	$ 188.7	$ 185.3	$ 141.2
Asset impairment charge	$ 678.9	$	$
Net loss for the year	$ 913.7	$ 216.3	$ 173.6

Proteostasis

In May 2011, we invested $20.0 million into equity capital of Proteostasis and became a 24% shareholder. Our $20.0 million equity interest in Proteostasis has been recorded as an equity method investment on the Consolidated Balance Sheet. The net loss recorded on the equity method investment in 2012 was $3.3 million (2011: $2.7 million), representing our share of the net losses of Proteostasis.

Alkermes plc

Following the completion of the merger between Alkermes, Inc. and EDT on September 16, 2011, we held approximately 25% of the outstanding ordinary shares of Alkermes plc (31.9 million shares). Our equity interest in Alkermes plc was initially recorded as an equity method investment on the Consolidated Balance Sheet at a carrying amount of $528.6 million, based on the closing share price of $16.57 of Alkermes, Inc. shares on the date of the transaction. The initial carrying value was approximately $300 million higher than our share of the book value of the net assets of Alkermes plc. Based on our assessment of the fair value of the net assets of Alkermes plc on the date of the transaction, this difference principally related to identifiable intangible assets and goodwill attributable to the Alkermes, Inc. business prior to its acquisition of EDT.

Under the equity method, we recognized our share of the earnings or losses of Alkermes plc, adjusted for the amortization of basis differences, in the Consolidated Statement of Operations with a corresponding increase or decrease in the carrying amount of the investment on the Consolidated Balance Sheet.

In March 2012, we sold 76% (24.15 million ordinary shares) of our shareholding in Alkermes plc. Following this sale, we continued to own 7.75 million ordinary shares of Alkermes plc, representing an approximate 6% equity interest in Alkermes plc. Following the sale of the 24.15 million ordinary shares, our remaining equity interest in Alkermes plc was classified as an available-for-sale investment in current assets with an initial carrying value of $126.5 million and equity method accounting no longer applied to this investment. For additional information on the disposal of 76% of our shareholding in Alkermes plc, refer to Note 12 to the consolidated financial statements.

On January 31, 2013, we announced that we had agreed to sell all of our remaining 7.75 million ordinary shares of Alkermes plc. The sale closed on February 6, 2013 and we received proceeds of $169.7 million.

For the year ended December 31, 2012, we recorded a net loss on the equity method investment of $7.2 million (2011: $0.7 million) related to our share of the losses of Alkermes plc in the period prior to the disposal of the 24.15 million ordinary shares of Alkermes plc, which has been recognized in the net income from discontinued operations reporting line of the Consolidated Statement of Operations.

For additional information on the EDT transaction with Alkermes, Inc. refer to Note 12.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Net Charge on Debt Retirement

2012

In 2012, we redeemed the outstanding aggregate principal amount of the 8.75% Senior Notes due 2016 issued October 2009 (the 2016 Notes issued October 2009) of $472.1 million and the outstanding aggregate principal amount of the 8.75% Senior Notes due 2016 issued August 2010 (the 2016 Notes issued August 2010) of $152.4 million. We recorded a net charge on debt retirement of $76.1 million in 2012 in connection with the redemption of these notes, which was comprised of total early redemption premiums of $58.0 million and the write-off of unamortized deferred financing costs and original issue discounts of $18.1 million.

2011

In 2011, following the divestment of EDT, we redeemed the outstanding aggregate principal amount of the 8.875% Senior Fixed Rate Notes due 2013 (the 2013 Fixed Rate Notes) of $449.5 million and the outstanding aggregate principal amount of the Senior Floating Rate Notes Due 2013 (the 2013 Floating Rate Notes) of $10.5 million. We also redeemed $152.9 million of the outstanding aggregate principal amount of the 2016 Notes issued October 2009 and $47.6 million of the outstanding aggregate principal amount of the 2016 Notes issued August 2010. We recorded a net charge on debt retirement of $47.0 million in 2011 in connection with the redemption of these notes, which was comprised of total early redemption premiums of $33.4 million, the write-off of unamortized deferred financing costs and original issue discounts of $10.2 million and transaction costs of $3.4 million.

2010

During 2010, we redeemed the $300.0 million in aggregate principal amount of the Senior Floating Rate Notes due 2011 (2011 Floating Rate Notes). We also redeemed $15.5 million of the outstanding aggregate principal amount of the 2013 Fixed Rate Notes and $139.5 million of the outstanding aggregate principal amount of the 2013 Floating Rate Notes. We recorded a net charge on debt retirement of $3.0 million in 2010 in connection with the redemption of these notes, relating to the write-off of unamortized deferred financing costs associated with these notes.

For additional information related to our debt and debt redemptions, please refer to Note 24 to the consolidated financial statements.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Income Taxes

Provision for/(benefit from) income taxes for the years ended December 31 consisted of the following (in millions):

	2012	2011	2010
Continuing Operations:			
Irish corporation tax current	$	$	$ 0.5
Irish corporation tax deferred	(369.0)	(37.0)	(29.8)
Foreign taxes current	0.6	(3.4)	1.5
Foreign taxes deferred	7.9	28.4	(24.4)
Benefit from income taxes continuing operations	(360.5)	(12.0)	(52.2)
Discontinued Operations:			
Irish corporation tax current			
Irish corporation tax deferred	34.0	36.9	