BIOGEN INC.
Form 10-Q
July 24, 2015

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

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

For the quarterly period ended June 30, 2015
OR

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

Commission File Number 0-19311

BIOGEN INC.
(Exact name of registrant as specified in its charter)

Delaware	33-0112644
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

225 Binney Street, Cambridge, MA 02142
(617) 679-2000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

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

The number of shares of the issuer's Common Stock, $0.0005 par value, outstanding as of July 17, 2015, was 235,169,225 shares.

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For the Quarterly Period Ended June 30, 2015
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NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- the anticipated amount, timing and accounting of revenues, contingent payments, milestone, royalty and other payments under licensing, collaboration or acquisition agreements, tax positions and contingencies, collectability of receivables, pre-approval inventory, cost of sales, research and development costs, compensation and other expenses, amortization of intangible assets, foreign currency exchange risk, estimated fair value of assets and liabilities, and impairment assessments;
- expectations relating to sales, growth and pricing of our marketed products;
- the potential impact of increased product competition in the markets in which we compete;
- the timing, outcome and impact of administrative, regulatory, legal and other proceedings related to patents and other proprietary and intellectual property rights, tax audits, assessments and settlements, pricing matters, sales and promotional practices, product liability and other matters;
- the costs and timing of potential trials, filing and approvals, and the potential therapeutic scope of the development and commercialization of our and our collaborators' pipeline products;
- our intent to commit resources for research and development opportunities, and expectations relating to selling, general and administrative expense;
- the impact of the continued uncertainty of the credit and economic conditions in certain countries in Europe and our collection of accounts receivable in such countries;
- expectations relating to the timing and execution of our stock repurchase programs;
- expected timing of the closing of our proposed collaboration with Applied Genetic Technologies Corporation;
- plans and timing relating to the expansion of our manufacturing capabilities, including anticipated investments in Solothurn, Switzerland and Research Triangle Park, North Carolina;
- our ability to finance our operations and business initiatives and obtain funding for such activities; and
- the impact of new laws and accounting standards.

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

NOTE REGARDING COMPANY AND PRODUCT REFERENCES

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

NOTE REGARDING TRADEMARKS

ALPROLIX®, AVONEX®, ELOCTATE®, PLEGRIDY®, RITUXAN®, TECFIDERA® and TYSABRI® are registered trademarks of Biogen. BENEPALI™, ELOCTA™, FUMADERM™ and ZINBRYTA™ are trademarks of Biogen. The following are trademarks of the respective companies listed: ANGIOMAX® and ANGIOX® — The Medicines Company; BETASERON®— Bayer Pharma AG; EXTAVIA®— Novartis AG; FAMPYRA™ — Acorda Therapeutics, Inc.; GAZYVA® — Genentech, Inc.; and REBIF®— Ares Trading S.A.

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PART I FINANCIAL INFORMATION

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Product, net	$2,198,566	$2,056,292	$4,370,888	$3,799,057
Unconsolidated joint business	337,510	303,296	668,121	600,181
Other	55,566	61,864	107,596	151,965
Total revenues	2,591,642	2,421,452	5,146,605	4,551,203
Cost and expenses:				
Cost of sales, excluding amortization of acquired intangible assets	286,120	291,887	598,551	571,132
Research and development	490,728	447,273	951,277	976,157
Selling, general and administrative	491,895	576,622	1,052,256	1,088,296
Amortization of acquired intangible assets	92,004	116,826	187,907	260,084
(Gain) loss on fair value remeasurement of contingent consideration	(2,201)	4,019	5,643	3,220
Total cost and expenses	1,358,546	1,436,627	2,795,634	2,898,889
Gain on sale of rights	—	3,900	—	7,759
Income from operations	1,233,096	988,725	2,350,971	1,660,073
Other income (expense), net	(10,889)	4,861	(25,875)	(740)
Income before income tax expense and equity in loss of investee, net of tax	1,222,207	993,586	2,325,096	1,659,333
Income tax expense	292,501	268,521	574,382	446,935
Equity in loss of investee, net of tax	4,881	1,933	5,715	9,538
Net income	924,825	723,132	1,744,999	1,202,860
Net income (loss) attributable to noncontrolling interests, net of tax	(2,451)	8,626	(4,818)	8,398
Net income attributable to Biogen Inc.	$927,276	$714,506	$1,749,817	$1,194,462
Net income per share:				
Basic earnings per share attributable to Biogen Inc.	$3.94	$3.02	$7.44	$5.05
Diluted earnings per share attributable to Biogen Inc.	$3.93	$3.01	$7.42	$5.03
Weighted-average shares used in calculating:				
Basic earnings per share attributable to Biogen Inc.	235,286	236,661	235,122	236,729
Diluted earnings per share attributable to Biogen Inc.	235,718	237,401	235,671	237,634

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Net income attributable to Biogen Inc.	$927,276	$714,506	$1,749,817	$1,194,462
Other comprehensive income:				
Unrealized gains (losses) on securities available for sale, net of tax of $(145) and $(4,029) for the three months ended June 30, 2015 and 2014, respectively; and $621 and $(3,015) for the six months ended June 30, 2015 and 2014, respectively	(214)	(6,865)	1,085	(5,140)
Unrealized gains (losses) on foreign currency forward contracts, net of tax of $(454) and $(260) for the three months ended June 30, 2015 and 2014, respectively; and $(42) and $5 for the six months ended June 30, 2015 and 2014, respectively	(96,159)	10,760	(8,913)	16,551
Unrealized gains (losses) on pension benefit obligation	2,851	(170)	4,109	646
Currency translation adjustment	63,035	(8,047)	(37,818)	(10,991)
Total other comprehensive income (loss), net of tax	(30,487)	(4,322)	(41,537)	1,066
Comprehensive income attributable to Biogen Inc.	896,789	710,184	1,708,280	1,195,528
Comprehensive income (loss) attributable to noncontrolling interests, net of tax	(2,266)	8,626	(4,533)	8,398
Comprehensive income	$894,523	$718,810	$1,703,747	$1,203,926

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	As of June 30, 2015	As of December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$1,282,078	$1,204,924
Marketable securities	1,086,595	640,460
Accounts receivable, net	1,310,821	1,292,445
Due from unconsolidated joint business, net	323,714	283,360
Inventory	865,738	804,022
Other current assets	750,039	447,462
Total current assets	5,618,985	4,672,673
Marketable securities	2,101,796	1,470,652
Property, plant and equipment, net	1,837,670	1,765,683
Intangible assets, net	4,294,791	4,028,507
Goodwill	2,154,341	1,760,249
Investments and other assets	751,588	618,795
Total assets	$16,759,171	$14,316,559
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of notes payable	$3,262	$3,136
Taxes payable	457,769	168,058
Accounts payable	282,702	229,178
Accrued expenses and other	1,812,099	1,819,334
Total current liabilities	2,555,832	2,219,706
Notes payable	576,207	582,061
Long-term deferred tax liability	138,403	50,656
Other long-term liabilities	915,731	650,096
Total liabilities	4,186,173	3,502,519
Commitments and contingencies		
Equity:		
Biogen Inc. shareholders' equity		
Preferred stock, par value $0.001 per share	—	—
Common stock, par value $0.0005 per share	129	129
Additional paid-in capital	4,251,443	4,196,156
Accumulated other comprehensive loss	(101,025)	(59,488)
Retained earnings	11,033,736	9,283,919
Treasury stock, at cost	(2,611,706)	(2,611,706)
Total Biogen Inc. shareholders' equity	12,572,577	10,809,010
Noncontrolling interests	421	5,030
Total equity	12,572,998	10,814,040
Total liabilities and equity	$16,759,171	$14,316,559

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$1,744,999	$1,202,860
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	292,523	355,102
Share-based compensation	93,677	83,856
Deferred income taxes	(90,647)	(146,506)
Other	(5,808)	(64,213)
Changes in operating assets and liabilities, net:		
Accounts receivable	(38,907)	(188,961)
Inventory	(81,294)	(72,689)
Accrued expenses and other current liabilities	(169,929)	(30,299)
Current taxes payable	102,017	31,113
Other changes in operating assets and liabilities, net	(66,374)	(75,044)
Net cash flows provided by operating activities	1,780,257	1,095,219
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	975,517	1,317,525
Purchases of marketable securities	(2,045,046)	(1,787,606)
Acquisitions of business, net of cash acquired	(198,798)	—
Purchases of property, plant and equipment	(227,688)	(118,308)
Contingent consideration related to Fumapharm AG acquisition	(250,000)	(25,000)
Other	(10,119)	(10,745)
Net cash flows used in investing activities	(1,756,134)	(624,134)
Cash flows from financing activities:		
Purchase of treasury stock	(42,193)	(336,905)
Proceeds from issuance of stock for share-based compensation arrangements	34,727	33,477
Excess tax benefit from stock options	69,690	83,940
Other	14,995	12,003
Net cash flows provided by (used in) financing activities	77,219	(207,485)
Net increase in cash and cash equivalents	101,342	263,600
Effect of exchange rate changes on cash and cash equivalents	(24,188)	(2,965)
Cash and cash equivalents, beginning of the period	1,204,924	602,562
Cash and cash equivalents, end of the period	$1,282,078	$863,197

See accompanying notes to these unaudited condensed consolidated financial statements.

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

1. Summary of Significant Accounting Policies

Business Overview

Biogen is a global biopharmaceutical company focused on discovering, developing, manufacturing and delivering therapies for neurological, autoimmune and hematologic disorders. Our principal marketed products include AVONEX, PLEGRIDY, TECFIDERA, TYSABRI, and FAMPYRA for multiple sclerosis (MS), ALPROLIX for hemophilia B and ELOCTATE for hemophilia A. We also collaborate with Genentech, Inc., a wholly-owned member of the Roche Group, on the development and commercialization of RITUXAN for the treatment of non-Hodgkin's lymphoma, chronic lymphocytic leukemia and other conditions and share profits and losses for GAZYVA, which is approved for the treatment of chronic lymphocytic leukemia.

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial statements for interim periods in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The information included in this quarterly report on Form 10-Q should be read in conjunction with our consolidated financial statements and the accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2014 (2014 Form 10-K). Our accounting policies are described in the “Notes to Consolidated Financial Statements” in our 2014 Form 10-K and updated, as necessary, in this Form 10-Q. The year-end condensed consolidated balance sheet data presented for comparative purposes was derived from our audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the three and six months ended June 30, 2015, are not necessarily indicative of the operating results for the full year or for any other subsequent interim period.

Consolidation

Our condensed consolidated financial statements reflect our financial statements, those of our wholly-owned subsidiaries and those of certain variable interest entities where we are the primary beneficiary. For consolidated entities where we own or are exposed to less than 100% of the economics, we record net income (loss) attributable to noncontrolling interests in our condensed consolidated statements of income equal to the percentage of the economic or ownership interest retained in such entities by the respective noncontrolling parties. Intercompany balances and transactions are eliminated in consolidation.

In determining whether we are the primary beneficiary of an entity and therefore required to consolidate, we apply a qualitative approach that determines whether we have both (1) the power to direct the economically significant activities of the entity and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to that entity. These considerations impact the way we account for our existing collaborative relationships and other arrangements. We continuously assess whether we are the primary beneficiary of a variable interest entity as changes to existing relationships or future transactions may result in us consolidating or deconsolidating one or more of our collaborators or partners.

We operate as one operating segment, which is focused on discovering, developing, manufacturing and delivering therapies for neurological, autoimmune and hematologic disorders.

Use of Estimates

The preparation of our condensed consolidated financial statements requires us to make estimates, judgments, and assumptions that may affect the reported amounts of assets, liabilities, equity, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments and methodologies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

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BIOGEN INC. AND SUBSIDIARIES
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Accounts Receivable

Our accounts receivable primarily arise from product sales in the U.S. and Europe and mainly represent amounts due from our wholesale distributors, public hospitals and other government entities. Concentrations of credit risk with respect to our accounts receivable, which are typically unsecured, are limited due to the wide variety of customers and markets using our products, as well as their dispersion across many different geographic areas. The majority of our accounts receivable require payment within 30 to 90 days. We monitor the financial performance and credit worthiness of our customers so that we can properly assess and respond to changes in their credit profile. We provide reserves against trade receivables for estimated losses that may result from a customer's inability to pay. Amounts determined to be uncollectible are charged or written-off against the reserve. To date, our historical reserves and write-offs of accounts receivable have not been significant.

In countries where we have experienced a pattern of payments extending beyond our contractual payment term and we expect to collect receivables greater than one year after the time of sale, we have discounted our receivables and reduced related revenues over the period of time that we estimate those amounts will be paid using the country's market-based borrowing rate for such period. The related receivables are classified at the time of sale as non-current assets. We accrete interest income on these receivables, which is recognized as a component of other income (expense), net within our condensed consolidated statement of income.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation. Accumulated depreciation on property, plant and equipment was $1,274.2 million and $1,186.4 million as of June 30, 2015 and December 31, 2014, respectively.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we do not believe that the impact of recently issued standards that are not yet effective will have a material impact on our financial position or results of operations upon adoption.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. In July 2015, the FASB decided to delay the effective date of the new revenue standard by one year. The new standard will be effective for us on January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. We are currently evaluating the method of adoption and the potential impact that Topic 606 may have on our financial position and results of operations.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosure. The new standard expanded secured borrowing accounting to include repurchase-to-maturity transactions and repurchase financings and set forth new disclosure requirements for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. We adopted this standard on April 1, 2015 and expanded our disclosures presented within Note 7, Financial Instruments to these condensed consolidated financial statements. The adoption of this standard did not have an impact on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new standard will be effective for us on January 1, 2016. The adoption of this standard is not expected to have an impact on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. Under this standard, if a cloud computing arrangement includes a software license, the software license element of the arrangement should be accounted for consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the arrangement should be accounted for as a service contract. The new standard

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will be effective for us on January 1, 2016. The adoption of this standard is not expected to have an impact on our financial position or results of operations.

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The new standard removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The new standard will be effective for us on January 1, 2016. Early application is permitted. We maintain investments in certain venture capital funds which primarily invest in small, privately-owned, venture-backed biotechnology companies. The value of our investments in these venture capital funds is estimated using the net asset value of the fund and has been included in the fair value hierarchy disclosure as a Level 3 measurement. These venture capital investments are not material to our financial position or results of operations. We have elected to apply this standard as of June 30, 2015 and our investments in venture capital funds will no longer be included in our disclosures reflected within Note 6, Fair Value Measurements to these condensed consolidated financial statements.

2. Acquisitions

Convergence Pharmaceuticals

On February 12, 2015, we completed our acquisition of all of the outstanding stock of Convergence Pharmaceuticals (Convergence), a clinical-stage biopharmaceutical company with a focus on developing product candidates for neuropathic pain. Convergence's lead candidate is its Phase 2 clinical candidate (CNV1014802), which has demonstrated clinical activity in proof-of-concept studies for trigeminal neuralgia (TGN), a chronic orphan disease. Additionally, CNV1014802 has potential applicability in several other neuropathic pain states.

The purchase price consisted of a $200.1 million cash payment at closing, plus contingent consideration in the form of development and approval milestones up to a maximum of $450.0 million, of which $350.0 million is associated with the development and approval of CNV1014802 for the treatment of TGN. The acquisition was funded from our existing cash on hand and has been accounted for as the acquisition of a business. In addition to obtaining the rights to CNV1014802 and additional product candidates in preclinical development, we retained the services of key employees of Convergence.

In connection with our acquisition of Convergence, we recorded a liability of $274.5 million representing the fair value of the contingent consideration. This amount was estimated through a valuation model that incorporates industry-based probability adjusted assumptions relating to the achievement of these milestones and thus the likelihood of making the contingent payments. This fair value measurement is based upon significant inputs not observable in the market and therefore represents a Level 3 measurement.

The purchase price, as adjusted, consisted of the following:

(In millions)	
Cash portion of consideration	$200.1
Contingent consideration	274.5
Total purchase price	$474.6

Subsequent changes in the fair value of the contingent consideration obligation will be recognized as adjustments to contingent consideration and reflected within our condensed consolidated statements of income. For additional information related to the fair value of this obligation, please read Note 6, Fair Value Measurements to these condensed consolidated financial statements.

We adjusted our preliminary estimate of the fair value of the separately identifiable assets acquired and contingent consideration as of the date of acquisition to reflect revised estimates to our initial clinical development plans, resulting probabilities of success and the timing of certain milestone payments. The primary effects of these revised estimates resulted in an increase in the value of our estimated contingent consideration and goodwill by $36.0 million, respectively, as compared with March 31, 2015. Our revised purchase price allocation is reflected in the chart below. Our purchase price allocation is substantially complete.

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BIOGEN INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, continued)

The following table summarizes the estimated fair values of the separately identifiable assets acquired and liabilities assumed as of February 12, 2015, as adjusted:

(In millions)	
In-process research and development	$424.6
Other intangible assets	7.6
Goodwill	128.3
Deferred tax liability	(84.9)
Other, net	(1.0)
Total purchase price	$474.6

Our estimate of the fair value of the IPR&D programs acquired was determined through a probability adjusted cash flow analysis based on probability weighted net cash flows utilizing a discount rate of 11%. This valuation was primarily driven by the value associated with the lead candidate, CNV1014802, which is in development for the treatment of TGN and is expected to be completed no earlier than 2020, at a remaining cost of approximately $145.0 million. The fair value associated with CNV1014802 for the treatment of TGN was $200.0 million. We have recorded additional IPR&D assets related to the use of CNV1014802 in two additional neuropathic pain indications, with a total estimated value of $220.0 million. The remaining cost of development for these two indications is approximately $415.0 million, with an expected completion date of no earlier than 2021. These fair value measurements were based on significant inputs not observable in the market and thus represent Level 3 fair value measurements.

We have attributed the goodwill recognized to the Convergence workforce's expertise in chronic pain research and clinical development and to establishing a deferred tax liability for the acquired IPR&D intangible assets which has no tax basis. The goodwill is not tax deductible.

Pro forma results of operations would not be materially different as a result of the acquisition of Convergence and therefore are not presented. Subsequent to the acquisition date, our results of operations include the results of operations of Convergence.

3. Reserves for Discounts and Allowances

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

(In millions)	Discounts	Contractual Adjustments	Returns	Total
Balance, as of December 31, 2014	$47.6	$387.1	$49.1	$483.8
Current provisions relating to sales in current year	209.2	854.4	19.1	1,082.7
Adjustments relating to prior years	0.4	(19.8)	(8.1)	(27.5)
Payments/credits relating to sales in current year	(158.0)	(483.9)	(0.9)	(642.8)
Payments/credits relating to sales in prior years	(43.3)	(254.7)	(7.8)	(305.8)
Balance, as of June 30, 2015	$55.9	$483.1	$51.4	$590.4

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

(In millions)	As of June 30, 2015	As of December 31, 2014
Reduction of accounts receivable	$143.9	$124.6
Component of accrued expenses and other	446.5	359.2
Total reserves	$590.4	$483.8

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BIOGEN INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, continued)

4. Inventory

The components of inventory are summarized as follows:

(In millions)	As of June 30, 2015	As of December 31, 2014
Raw materials	$173.2	$128.3
Work in process	516.7	511.5
Finished goods	175.8	164.2
Total inventory	$865.7	$804.0

As of June 30, 2015, our inventory included $35.8 million associated with our ZINBRYTA and biosimilar programs, which have been capitalized in advance of regulatory approval. As of December 31, 2014, our inventory included $6.3 million associated with our ZINBRYTA program, which had been capitalized in advance of regulatory approval.

5. Intangible Assets and Goodwill

Intangible Assets

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

		As of June 30, 2015			As of December 31, 2014		
(In millions)	Estimated Life	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Out-licensed patents	13-23 years	$543.3	$ (493.9)	$49.4	$543.3	$ (481.7)	$61.6
Developed technology	15-23 years	3,005.3	(2,492.1)	513.2	3,005.3	(2,396.8)	608.5
In-process research and development	Indefinite until commercialization	752.0	—	752.0	314.1	—	314.1
Trademarks and tradenames	Indefinite	64.0	—	64.0	64.0	—	64.0
Acquired and in-licensed rights and patents	3-17 years	3,296.7	(380.5)	2,916.2	3,280.4	(300.1)	2,980.3
Total intangible assets		$7,661.3	$ (3,366.5)	$4,294.8	$7,207.1	$ (3,178.6)	$4,028.5

For the three and six months ended June 30, 2015, amortization of acquired intangible assets totaled $92.0 million and $187.9 million, respectively, as compared to $116.8 million and $260.1 million, respectively, in the prior year comparative periods. For the three and six months ended June 30, 2015, compared to the same periods in 2014, the decrease in amortization of acquired intangible assets was primarily driven by a decrease in AVONEX and TYSABRI revenues during the comparative periods and higher expected lifetime revenues of TYSABRI as discussed below. Amortization of acquired intangible assets during the six months ended June 30, 2014 also includes a $34.7 million impairment charge related to one of our out-licensed patents.

Developed Technology

Developed technology primarily relates to our AVONEX product, which was recorded in connection with the merger of Biogen, Inc. and IDEC Pharmaceuticals Corporation in 2003. The net book value of this asset as of June 30, 2015 was $504.3 million.

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In-process Research and Development (IPR&D)

IPR&D represents the fair value assigned to research and development assets that we acquire that have not reached technological feasibility at the date of acquisition. Upon commercialization, we will determine the estimated useful life. In connection with our acquisition of Convergence in February 2015, we acquired IPR&D programs with an estimated fair value of $424.6 million. This amount will be adjusted for foreign exchange rate fluctuations. For a more detailed description of this transaction, please read Note 2, Acquisitions to these condensed consolidated financial statements.

Acquired and In-licensed Rights and Patents

Acquired and in-licensed rights and patents primarily relate to our acquisition of the TYSABRI rights from Elan Corporation plc (Elan). Elan was acquired by Perrigo Company plc (Perrigo) in December 2013. The net book value of this asset as of June 30, 2015 was $2,851.9 million.

Estimated Future Amortization of Intangible Assets

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

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

(In millions)	As of June 30, 2015
2015 (remaining six months)	$185.5
2016	312.5
2017	285.8
2018	281.6
2019	270.6
2020	263.8
Total	$1,599.8

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Goodwill

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

(In millions)	
Balance, as of December 31, 2014	$1,760.2
Increase to goodwill	390.0
Other	4.1
Balance, as of June 30, 2015	$2,154.3

The increase in goodwill during the six months ended June 30, 2015 was related to a $300.0 million contingent payment achieved (exclusive of a $38.3 million tax benefit) and to be paid to former shareholders of Fumapharm AG or holders of their rights and our acquisition of Convergence. Other includes changes related to foreign exchange. For additional information related to future contingent payments to the former shareholders of Fumapharm AG or holders of their rights, please read Note 18, Commitments and Contingencies to these condensed consolidated financial statements. For additional information related to our acquisition of Convergence, please read Note 2, Acquisitions to these condensed consolidated financial statements.

As of June 30, 2015, we had no accumulated impairment losses related to goodwill.

6. Fair Value Measurements

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

As of June 30, 2015 (In millions)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$974.0	$—	$ 974.0	$—
Marketable debt securities:				
Corporate debt securities	1,198.1	—	1,198.1	—
Government securities	1,700.3	—	1,700.3	—
Mortgage and other asset backed securities	290.0	—	290.0	—
Marketable equity securities	6.8	6.8	—	—
Derivative contracts	100.5	—	100.5	—
Plan assets for deferred compensation	40.7	—	40.7	—
Total	$4,310.4	$6.8	$ 4,303.6	$—
Liabilities:				
Derivative contracts	$27.7	$—	$ 27.7	$—
Contingent consideration obligations	495.6	—	—	495.6
Total	$523.3	$—	$ 27.7	$495.6

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As of December 31, 2014 (In millions)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$716.3	$—	$716.3	$—
Marketable debt securities:				
Corporate debt securities	1,063.0	—	1,063.0	—
Government securities	849.8	—	849.8	—
Mortgage and other asset backed securities	198.3	—	198.3	—
Marketable equity securities	6.9	6.9	—	—
Derivative contracts	72.7	—	72.7	—
Plan assets for deferred compensation	36.9	—	36.9	—
Total	$2,943.9	$6.9	$2,937.0	$—
Liabilities:				
Derivative contracts	$5.4	$—	$5.4	$—
Contingent consideration obligations	215.5	—	—	215.5
Total	$220.9	$—	$5.4	$215.5

There have been no material impairments of our assets measured and carried at fair value during the three and six months ended June 30, 2015. In addition, there were no changes in valuation techniques or inputs utilized or transfers between fair value measurement levels during the three and six months ended June 30, 2015. The fair value of Level 2 instruments classified as cash equivalents and marketable debt securities was determined through third party pricing services. For a description of our validation procedures related to prices provided by third party pricing services, refer to Note 1, Summary of Significant Accounting Policies: Fair Value Measurements, to our consolidated financial statements included within our 2014 Form 10-K. For additional information related to our decision to no longer reflect our investments in venture capital funds within the fair value hierarchy, refer to Note 1, Summary of Significant Accounting Policies: New Accounting Pronouncements, to these condensed consolidated financial statements.

Debt Instruments

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

(In millions)	As of June 30, 2015		As of December 31, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Notes payable to Fumedica	$10.0	$9.4	$12.6	$11.7
6.875% Senior Notes due March 1, 2018	621.5	570.1	634.6	573.5
Total	$631.5	$579.5	$647.2	$585.2

The fair value of our notes payable to Fumedica was estimated using market observable inputs, including current interest and foreign currency exchange rates. The fair value of our 6.875% Senior Notes was determined through market, observable, and corroborated sources. For additional information related to our debt instruments, please read Note 12, Indebtedness to our consolidated financial statements included within our 2014 Form 10-K.

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Contingent Consideration Obligations

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In millions)	2015	2014	2015	2014
Fair value, beginning of period	$461.8	$275.1	$215.5	$280.9
Additions	36.0	—	274.5	—
Changes in fair value	(2.2)	4.0	5.6	3.2
Payments	—	—	—	(5.0)
Fair value, end of period	$495.6	$279.1	$495.6	$279.1

As of June 30, 2015 and December 31, 2014, approximately $302.2 million and $200.0 million, respectively, of the fair value of our total contingent consideration obligations were reflected as components of other long-term liabilities within our condensed consolidated balance sheets with the remaining balances reflected as a component of accrued expenses and other.

In connection with our acquisition of Convergence, we recorded a liability of $274.5 million, representing the fair value of the contingent consideration. This valuation was based on probability weighted net cash outflow projections of $450.0 million, discounted using a rate of 2%, which is the estimated cost of debt financing for market participants. This liability reflects the revised estimate from the date of acquisition for our initial clinical development plans, resulting probabilities of success and the timing of certain milestone payments. For a more detailed description of this transaction, please read Note 2, Acquisitions to these condensed consolidated financial statements.

Acquired IPR&D

In connection with our acquisition of Convergence, we also allocated $424.6 million of the total purchase price to acquired IPR&D, which was capitalized as an intangible asset. The amount allocated to acquired IPR&D was based on significant inputs not observable in the market and thus represented a Level 3 fair value measurement. This estimate was also adjusted from our preliminary estimate as of the date of acquisition to reflect revised estimates to our initial clinical development plans, resulting probabilities of success and the timing of certain milestone payments. These assets will be tested for impairment annually until commercialization, after which time the IPR&D will be amortized over its estimated useful life. For a more detailed description of this transaction, please read Note 2, Acquisitions to these condensed consolidated financial statements.

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7. Financial Instruments

Marketable Securities

The following tables summarize our marketable debt and equity securities:

As of June 30, 2015 (In millions)	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Available-for-sale:				
Corporate debt securities				
Current	$375.9	$0.1	$(0.1)	$375.9
Non-current	822.2	0.4	(1.2)	823.0
Government securities				
Current	710.5	0.1	(0.1)	710.5
Non-current	989.8	0.9	(0.1)	989.0
Mortgage and other asset backed securities				
Current	0.2	—	—	0.2
Non-current	289.8	0.2	(0.3)	289.9
Total marketable debt securities	$3,188.4	$1.7	$(1.8)	$3,188.5
Marketable equity securities, non-current	$6.8	$1.1	$—	$5.7

As of December 31, 2014 (In millions)	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Available-for-sale:				
Corporate debt securities				
Current	$370.4	$—	$(0.2)	$370.6
Non-current	692.6	0.2	(1.5)	693.9
Government securities				
Current	269.9	—	(0.1)	270.0
Non-current	579.9	0.3	(0.4)	580.0
Mortgage and other asset backed securities				
Current	0.2	—	—	0.2
Non-current	198.1	0.2	(0.2)	198.1
Total marketable debt securities	$2,111.1	$0.7	$(2.4)	$2,112.8
Marketable equity securities, non-current	$6.9	$1.2	$(0.2)	$5.9

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

(In millions)	As of June 30, 2015	As of December 31, 2014
Commercial paper	$38.8	$54.2
Overnight reverse repurchase agreements	185.0	305.0
Money market funds	740.2	321.2
Short-term debt securities	10.0	35.9
Total	$974.0	$716.3

The carrying values of our commercial paper, including accrued interest, overnight reverse repurchase agreements, money market funds and our short-term debt securities approximate fair value due to their short term maturities. Our overnight reverse repurchase agreements are collateralized with agency-guaranteed mortgage securities and represent

approximately 1.1% and 2.1% of total assets as of June 30, 2015 and December 31, 2014, respectively.

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Summary of Contractual Maturities: Available-for-Sale Securities

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

(In millions)	As of June 30, 2015		As of December 31, 2014	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in one year or less	$1,086.6	$1,086.6	$640.5	$640.8
Due after one year through five years	1,954.4	1,954.5	1,343.7	1,345.2
Due after five years	147.4	147.4	126.9	126.8
Total available-for-sale securities	$3,188.4	$3,188.5	$2,111.1	$2,112.8

The average maturity of our marketable debt securities available-for-sale as of June 30, 2015 and December 31, 2014 was approximately 17 months and 15 months, respectively.

Proceeds from Marketable Debt Securities

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In millions)	2015	2014	2015	2014
Proceeds from maturities and sales	$601.9	$560.1	$975.5	$1,317.5
Realized gains	$0.3	$0.2	$0.5	$0.4
Realized losses	$(0.5)	$(0.1)	$(0.8)	$(0.2)

Strategic Investments

As of June 30, 2015 and December 31, 2014, our strategic investment portfolio was comprised of investments totaling $45.3 million and $47.8 million, respectively, which are included in investments and other assets in our accompanying condensed consolidated balance sheets. Our strategic investment portfolio includes investments in equity securities of certain biotechnology companies and investments in venture capital funds where the underlying investments are in equity securities of biotechnology companies.

8. Derivative Instruments

Foreign Currency Forward Contracts - Hedging Instruments

Due to the global nature of our operations, portions of our revenues are earned in currencies other than the U.S. dollar. The value of revenues measured in U.S. dollars is therefore subject to changes in foreign currency exchange rates. In order to mitigate these changes we use foreign currency forward contracts to lock in exchange rates associated with a portion of our forecasted international revenues.

Foreign currency forward contracts in effect as of June 30, 2015 and December 31, 2014 had durations of 1 to 18 months and 1 to 15 months, respectively. These contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in accumulated other comprehensive income (loss) (referred to as AOCI in the tables below). Realized gains and losses for the effective portion of such contracts are recognized in revenue when the sale of product in the currency being hedged is recognized. To the extent ineffective, hedge transaction gains and losses are reported in other income (expense), net.

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The notional value of foreign currency forward contracts that were entered into to hedge forecasted revenues is summarized as follows:

	Notional Amount	
Foreign Currency: (In millions)	As of June 30, 2015	As of December 31, 2014
Euro	$1,437.2	$1,174.6
Canadian dollar	32.1	56.7
British pound sterling	21.9	34.5
Japanese yen	15.5	16.6
Australian dollar	10.3	19.9
Total foreign currency forward contracts	$1,517.0	$1,302.3

The portion of the fair value of these foreign currency forward contracts that was included in accumulated other comprehensive income (loss) within total equity reflected gains of $63.1 million and $72.1 million as of June 30, 2015 and December 31, 2014, respectively. We expect all contracts to be settled over the next 18 months and any amounts in accumulated other comprehensive income (loss) to be reported as an adjustment to revenue. We consider the impact of our and our counterparties' credit risk on the fair value of the contracts as well as the ability of each party to execute its contractual obligations. As of June 30, 2015 and December 31, 2014, credit risk did not change the fair value of our foreign currency forward contracts.

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

For the Three Months Ended June 30,					
Net Gains/(Losses) Reclassified from AOCI into Operating Income (Effective Portion)			Net Gains/(Losses) Recognized into Net Income (Ineffective Portion)		
Location	2015	2014	Location	2015	2014
Revenue	$40.4	$(5.2)	Other income (expense)	$1.2	$(1.0)

For the Six Months Ended June 30,					
Net Gains/(Losses) Reclassified from AOCI into Operating Income (Effective Portion)			Net Gains/(Losses) Recognized into Net Income (Ineffective Portion)		
Location	2015	2014	Location	2015	2014
Revenue	$75.4	$(10.0)	Other income (expense)	$3.4	$(1.2)

Foreign Currency Forward Contracts - Other Derivatives

We also enter into other foreign currency forward contracts, usually with one month durations, to mitigate the foreign currency risk related to certain balance sheet positions. We have not elected hedge accounting for these transactions. The aggregate notional amount of these outstanding foreign currency contracts was $472.4 million and $365.2 million as of June 30, 2015 and December 31, 2014, respectively. Net gains of $13.6 million and $3.9 million related to these contracts were recognized as a component of other income (expense), net, for three and six months ended June 30, 2015, respectively, as compared to net losses of $2.4 million and $3.8 million, respectively, in the prior year comparative periods.

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Summary of Derivatives

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

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

(In millions)	Balance Sheet Location	Fair Value As of June 30, 2015
Hedging Instruments:		
Asset derivatives	Other current assets	$92.8
Liability derivatives	Accrued expenses and other	$9.8
	Other long-term liabilities	$17.2
Other Derivatives:		
Asset derivatives	Other current assets	$7.7
Liability derivatives	Accrued expenses and other	$0.7

(In millions)	Balance Sheet Location	Fair Value As of December 31, 2014
Hedging Instruments:		
Asset derivatives	Other current assets	$69.5
	Investments and other assets	$1.9
Other Derivatives:		
Asset derivatives	Other current assets	$1.3
Liability derivatives	Accrued expenses and other	$5.4

9. Equity

Total equity as of June 30, 2015 increased $1,759.0 million compared to December 31, 2014. This increase was driven by net income attributable to Biogen Inc. and an increase in additional paid in capital resulting from our share-based compensation arrangements, partially offset by other comprehensive losses and a reduction in additional paid-in-capital resulting from the repurchase and retirement of common stock as described below.

Share Repurchases

In May 2015, our Board of Directors authorized a program to repurchase up to $5.0 billion of our common stock (2015 Share Repurchase Program). This authorization does not have an expiration date. We expect that purchases will be executed within a period of up to five years and that repurchased shares will be retired. The 2015 Share Repurchase Program is in addition to the approximately 1.3 million shares remaining under our February 2011 Share Repurchase Program (2011 Share Repurchase Program), which has been used principally to offset common stock issuances under our share-based compensation plans.

During the six months ended June 30, 2015, we repurchased and retired approximately 0.1 million shares of common stock at a cost of $42.2 million under our 2015 Share Repurchase Program and did not repurchase any shares of common stock under our 2011 Share Repurchase Program. During the six months ended June 30, 2014, we purchased approximately 1.2 million shares of common stock at a cost of $336.9 million under our 2011 Share Repurchase Program.

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Noncontrolling Interests

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In millions)	2015	2014	2015	2014
NCI, beginning of period	$2.7	$4.4	$5.0	$0.6
Net income (loss) attributable to NCI, net of tax	(2.5)	8.6	(4.8)	