

ALEXION PHARMACEUTICALS INC

Form 10-K/A

January 19, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

☒ Annual report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2015

or

☐ Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number: 0-27756

ALEXION PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

13-3648318

(State or Other Jurisdiction of Incorporation or Organization)(I.R.S. Employer Identification No.)

100 College Street, New Haven, Connecticut 06510

(Address of Principal Executive Offices) (Zip Code)

475-230-2596

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value \$0.0001

Name of each exchange on which registered: The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

Smaller reporting company ☐

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based upon the last sale price of the Common Stock reported on The NASDAQ Stock Market LLC on June 30, 2015, was \$39,491,560,848.⁽¹⁾ The number of shares of Common Stock outstanding as of February 3, 2016 was 225,291,331.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be used in connection with its Annual Meeting of Stockholders to be held on May 11, 2016, are incorporated by reference into Part III of this report.

(1) Excludes 7,551,963 shares of common stock held by directors and executive officers at June 30, 2015. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, directly or indirectly, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

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EXPLANATORY NOTE

Alexion Pharmaceuticals, Inc. (the Company) is filing this Amendment No. 1 on Form 10-K/A (this Amended Filing) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2015 that was filed on February 8, 2016 (the Original Filing) to: (i) amend and restate management's conclusions regarding the effectiveness of disclosure controls and procedures and internal control over financial reporting as of December 31, 2015, and (ii) amend and restate the Report of the Independent Registered Public Accounting Firm to change the firm's opinion regarding the effectiveness of the Company's internal control over financial reporting as of December 31, 2015.

As described in the Company's Quarterly Report on Form 10-Q for the period ending September 30, 2016 filed on January 4, 2017, management has concluded that its disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2015 due to a material weakness in its internal control over financial reporting identified subsequent to the issuance of its Original Filing. The Company's consolidated financial statements as of and for the year ended December 31, 2015, which were included in the Original Filing, have not changed as a result of the material weakness. See Item 9A., "Controls and Procedures," for discussion of management's disclosure controls and procedures, management's restated, annual report on internal control over financial reporting, changes in internal control over financial reporting and remediation plan and activities. Accordingly, the Company hereby amends and replaces in its entirety Items 9A and 15 in the Original Filing.

As required by Rule 12b-15, the Company's principal executive officer and principal financial officer are providing new currently dated certifications. In addition, the Company is filing a new consent of PricewaterhouseCoopers LLP. Accordingly, the Company hereby amends Item 15 in the Original Filing to reflect the filing of the new certifications and consent.

Except as described above, this Amended Filing does not amend, update or change any other items or disclosures in the Original Filing and does not purport to reflect any information or events subsequent to the filing date of the Original Filing. As such, the Company's consolidated financial statements as of and for the year ended December 31, 2015, which were included in the Original Filing, have not changed as a result of the material weakness. This Amended Filing speaks only as of the date the Original Filing was filed, and the Company has not undertaken herein to amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Amended Filing should be read in conjunction with the Company's filings made with the Securities and Exchange Commission subsequent to the filing of the Original Filing, including any amendment to those filings.

PART II

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements and supplementary data of the Company required in this item are set forth beginning on page F-1. The only changes from the financial statements filed with the Company's Original Filing are changes to the Report of Independent Registered Public Accounting Firm on Page F-2.

Item 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures.

We have established disclosure controls and procedures to provide reasonable assurance that information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure, and ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2015. At the time that the Original Filing was filed on February 8, 2016, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015. Subsequent to this evaluation, the Company's current Interim Chief Executive Officer and current Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2015, due to the material weakness in internal control over financial reporting as described below. Notwithstanding the material weaknesses in our internal control over financial reporting as of December 31, 2015, management has concluded that the consolidated financial statements included in the Original Filing and in this Form 10-K/A present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented as described below.

Management's Report on Internal Control over Financial Reporting (Restated).

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015 based on the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

We did not maintain an effective control environment as our senior management failed to set an appropriate Tone at the Top. Specifically, senior management failed to reinforce the need for compliance with the Company's policies and procedures, which resulted in inappropriate business conduct. This control deficiency did not result in a misstatement to the Company's consolidated financial statements. However, this control deficiency could result in a misstatement to disclosures that would result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

In Management's Report on Internal Control over Financial Reporting included in our Original Annual Report on Form 10-K for the year ended December 31, 2015, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal control over financial reporting was effective as of December 31, 2015. Management subsequently concluded that the material weakness described above existed as of December 31, 2015. As a result, management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2015 based on the framework in Internal Control-Integrated Framework (2013) issued by the COSO. Accordingly, management has restated its report on internal control over financial reporting.

Management has excluded the Synageva BioPharma Corp. (Synageva) business from its assessment of internal control over financial reporting as of December 31, 2015, because it was acquired on June 22, 2015 and accounted for under the acquisition method of accounting for business combinations. Synageva is a wholly-owned subsidiary whose total assets and revenues represented approximately 1% and less than 1%, respectively, of the accompanying consolidated financial statement amounts as of and for the year ended December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control over Financial Reporting.

There has been no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Remediation Plan and Activities

Management is engaged in remedial activities to address the material weakness described above. The remedial activities include the following:

- The Board of Directors has and will reinforce to key leadership the importance of setting appropriate Tone at the Top and of appropriate behavior with respect to the Company's commitment to ethics and compliance programs in the performance of the Company's mission, as well as adherence to the Company's internal control over financial reporting framework;
- Members of senior management, with the participation and input of the Audit and Finance Committee and the Board of Directors, have and will increase communication with, and training of employees regarding:
 - Our commitment to ethical standards and the integrity of our business practices;
 - Requirements for compliance with applicable laws, our Code of Ethics and Business Conduct and other Company policies; and
 - Availability of and processes for reporting suspected violations of law or our Code of Ethics and Business Conduct.
- Revised financial reporting processes to ensure that all employees annually confirm compliance with the Company's Code of Ethics and Business Conduct and that deviations are identified and timely remediated; and
- The Board of Directors, together with management, is evaluating certain Company practices and procedures, including those related to compensation, planning and forecasting, as well as the Company's organizational structure, to determine which practices and procedures should be modified or terminated, and management is assessing roles and responsibilities to enhance controls and compliance.

In addition, on December 11, 2016, our Board of Directors oversaw a change in the Company's senior leadership when it appointed a new Interim Chief Executive Officer and a new Chief Financial Officer following the departures of our former Chief Executive Officer and Chief Financial Officer, as well as other personnel changes.

The Company is committed to maintaining a strong internal control environment. Management believes the foregoing efforts will effectively remediate the material weakness. We will provide further updates to the Company's Board on an ongoing basis with measurable milestones and responsibilities regarding the progress of our remediation efforts.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Item 15(a)

(1) Financial Statements

The financial statements required by this item are submitted in a separate section beginning on page F-1 of this report.

(2) Financial Statement Schedules

Schedules have been omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements or notes thereto beginning on page F-1 of this report.

(3) Exhibits:

- 2.1 Agreement and Plan of Merger by and among Alexion, TPCA Corporation, Taligen Therapeutics, Inc., each stockholder of Taligen that signed the Agreement as a seller of Series BI Call Rights, and, only for the limited purposes described therein as Stockholders' Representatives (and not in their individual capacities), Nick Galakatos, Ed Hurwitz and Timothy Mills, dated as of January 28, 2011.(1)+
- 2.2 Agreement and Plan of Merger by and among Alexion, EMRD Corporation, Enobia Pharma Corp., and the Stockholder Representatives named therein, dated as of December 28, 2011.(2)+
- 2.3 Amendment No. 1 to the Agreement and Plan of Merger, dated December 28, 2011, by and among Alexion, EMRD Corporation, Enobia Pharma Corp., and the Stockholder Representatives named therein, dated February 1, 2012.(3)
- 2.4 Agreement and Plan of Reorganization, dated May 5, 2015, among Alexion Pharmaceuticals, Inc., Pulsar Merger Sub Inc., Galaxy Merger Sub LLC and Synageva BioPharma Corp. (4)
- 3.1 Certificate of Incorporation, as amended.(5)
- 3.2 Certificate of Amendment of the Certificate of Incorporation.(6)
- 3.3 Bylaws, as amended.(7)
- 4.1 Specimen Common Stock Certificate.(8)
- 10.1 Consulting Agreement, by and between Alexion Pharmaceuticals, Inc. and Dr. Leonard Bell, dated April 1, 2015.(9)
- 10.2 Letter Agreement, by and between Alexion Pharmaceuticals, Inc. and Dr. Leonard Bell, dated April 1, 2015.(9)
- 10.5 Employment Agreement, dated as of February 14, 2006, between Alexion and Vikas Sinha.(10)**
- 10.6 Amendment No. 1 to the Employment Agreement, dated as of December 23, 2009, between Alexion and Vikas Sinha.(11)**

- 10.7 Form of Employment Agreement (Senior Vice Presidents).(10)**
 - 10.8 Form of Amendment No. 1 to Employment Agreements (Senior Vice Presidents). (11)**
 - 10.9 Form of Indemnification Agreement for Officers and Directors. (12)
 - 10.10 Agreement of Lease, dated May 9, 2000, between Alexion and WE Knotter L.L.C.(13)+
 - 10.11 Lease, dated November 15, 2012, between Alexion and WE Route 34, LLC.(14)
 - 10.12 Alexion's 2000 Stock Option Plan, as amended.(15)**
 - 10.13 Alexion's 1992 Outside Directors Stock Option Plan, as amended.(16)**
 - 10.14 Alexion's Amended and Restated 2004 Incentive Plan.(17)**
 - 10.15 License Agreement dated March 27, 1996 between Alexion and Medical Research Council.(18)+
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10.16 Master Manufacturing and Supply Agreement, dated December 16, 2014 between Alexion Pharma International Trading, Alexion Pharmaceuticals, Inc, Lonza Group AG, Lonza Biologics Tuas PTE LTD and Lonza Sales AG. (24)*

10.17 Form of Stock Option Agreement for Directors.(20)**

10.18 Form of Stock Option Agreement for Executive Officers (Form A).(21)**

10.19 Form of Stock Option Agreement for Executive Officers (Form B).(21)**

10.20 Form of Restricted Stock Award Agreement for Executive Officers (Form A).(22)**

10.21 Form of Stock Option Agreement (Incentive Stock Options).(19)

10.22 Form of Stock Option Agreement (Nonqualified Stock Options).(19)

10.23 Form of Restricted Stock Award Agreement.(19)

10.24 Form of Restricted Stock Unit Award Agreement.(23)

10.25 Form of Stock Option Agreement for Participants in France.(19)**

10.26 Form of Restricted Stock Unit Agreement for Participants in France.(19)**

10.27 Credit Agreement, dated as of June 22, 2015, by and among Alexion Pharmaceuticals, Inc, as administrative borrower, the guarantors referred to therein, the lenders referred to therein and Bank of America, N.A., as administrative agent. (25)

21.1 Subsidiaries of Alexion Pharmaceuticals, Inc.

23.1 Consent of PricewaterhouseCoopers LLP, an Independent Registered Public Accounting Firm

31.1 Certificate of Chief Executive Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 Sarbanes Oxley Act of 2002.

31.2 Certificate of Chief Financial Officer pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of Sarbanes Oxley Act of 2002.

32.1 Certificate of Chief Executive Officer pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act.

32.2 Certificate of Chief Financial Officer pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act.

101 The following materials from the Alexion Pharmaceuticals, Inc. Annual Report on Form 10-K for the year ended December 31, 2015 formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) related notes, tagged as blocks of text.

- (1) Incorporated by reference to our Report on Form 8-K, filed on February 3, 2011.
- (2) Incorporated by reference to our Report on Form 8-K, filed on January 4, 2012.
- (3) Incorporated by reference to our Report on Form 8-K, filed on February 7, 2012.
- (4) Incorporated by reference to our Report on Form 8-K, filed on May 6, 2015
- (5) Incorporated by reference to our Registration Statement on Form S-3 (Reg. No. 333-128085), filed on September 2, 2005.
- (6) Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
- (7) Incorporated by reference to our Report on Form 8-K, filed on January 8, 2016.
- (8) Incorporated by reference to our Registration Statement on Form S-1 (Reg. No. 333-00202).
- (9) Incorporated by reference to our Report on Form 8-K, filed April 7, 2015.
- (10) Incorporated by reference to our Report on Form 8-K filed on February 16, 2006.
- (11) Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.
- (12) Incorporated by reference to our Report on Form 8-K, filed on September 17, 2010.
- (13) Incorporated by reference to our Registration Statement on Form S-3 (Reg. No. 333-36738) filed on May 10, 2000.
- (14) Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013.
- (15) Incorporated by reference to our quarterly report on Form 10-Q for the quarter ended January 31, 2004.
- (16) Incorporated by reference to our Registration Statement on Form S-8 (Reg. No. 333-71879) filed on February 5, 1999.
- (17) Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

- (18) Incorporated by reference to our Annual Report on Form 10-K/A for the fiscal year ended July 31, 1996.
- (19) Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- (20) Incorporated by reference to our report on Form 8-K, filed on December 16, 2004.
- (21) Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended January 31, 2005.
- (22) Incorporated by reference to our report on Form 8-K, filed on March 14, 2005.
- (23) Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.
- (24) Incorporated by reference to our Report on Form 10-K for the fiscal year ended December 31, 2014.
- (25) Incorporated by reference to our report on Form 8-K, filed on June 23, 2015.

+ Confidential treatment was granted for portions of such exhibit.

Confidential treatment requested under 17 C.F.R. §§200.80(b)(4) and 24b-2. The confidential portions of this exhibit * have been omitted and are marked accordingly. The confidential portions have been filed separately with the SEC pursuant to the confidential treatment request.

** Indicates a management contract or compensatory plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

Item 15(b) Exhibits

See (a) (3) above.

Item 15(c) Financial Statement Schedules

See (a) (2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALEXION PHARMACEUTICALS, INC.

By: /s/ David R. Brennan
 David R. Brennan
 Interim Chief Executive Officer (principal executive officer)
 Dated: January 19, 2017

By: /s/ David J. Anderson
 David J. Anderson Executive Vice President and Chief Financial Officer
 (principal financial officer)
 Dated: January 19, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ David R. Brennan	Interim Chief Executive Officer and Director (principal executive officer)	January 19, 2017
David R. Brennan		

/s/ David J. Anderson	Executive Vice President and Chief Financial Officer (principal financial officer)	January 19, 2017
David J. Anderson		

/s/ Daniel A. Bazarko	Senior Vice President and Chief Accounting Officer (principal accounting officer)	January 19, 2017
Daniel A. Bazarko, C.P.A.		

/s/ Leonard Bell	Chairman	January 19, 2017
Leonard Bell, M.D.		

/s/ Felix J. Baker	Director	January 19, 2017
Felix J. Baker, Ph.D.		

/s/ M. Michele Burns	Director	January 19, 2017
M. Michele Burns		

/s/ Christopher J. Coughlin	Director	January 19, 2017
Christopher J. Coughlin		

/s/ John T. Mollen	Director	January 19, 2017
John T. Mollen		

/s/ R. Douglas Norby	Director	January 19, 2017
R. Douglas Norby		
/s/ Alvin S. Parven	Director	January 19, 2017
Alvin S. Parven		
/s/ Andreas Rummelt	Director	January 19, 2017
Andreas Rummelt, Ph.D.		
/s/ Ann M. Veneman	Director	January 19, 2017
Ann M. Veneman		

Alexion Pharmaceuticals, Inc.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Alexion Pharmaceuticals, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Alexion Pharmaceuticals, Inc. and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Management and we previously concluded that the Company maintained effective internal control over financial reporting as of December 31, 2015. However, management has subsequently determined that a material weakness in internal control over financial reporting existed as of that date related to not maintaining an effective control environment as senior management failed to set an appropriate tone at the top. Specifically, senior management failed to reinforce the need for compliance with the Company's policies and procedures, which resulted in inappropriate business conduct. Accordingly, management's report has been restated and our opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting existed as of that date related to not maintaining an effective control environment as senior management failed to set an appropriate tone at the top. Specifically, senior management failed to reinforce the need for compliance with the Company's policies and procedures, which resulted in inappropriate business conduct. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2015 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding

prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Synageva BioPharma Corp. from its assessment of internal control over financial reporting as of December 31, 2015 because it was acquired by the Company in a purchase business combination during 2015. We have also excluded Synageva BioPharma Corp.

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from our audit of internal control over financial reporting. Synageva BioPharma Corp. is a wholly-owned subsidiary whose total assets and total revenues represent approximately 1% and less than 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut

February 8, 2016, except with respect to our opinion on internal control over financial reporting insofar as it relates to the effects of the matter described in the third paragraph of Management's Report on Internal Control over Financial Reporting, as to which the date is January 19, 2017.

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Alexion Pharmaceuticals, Inc.

Consolidated Balance Sheets

(amounts in thousands, except per share amounts)

	December 31,	
	2015	2014
Assets		
Current Assets:		
Cash and cash equivalents	\$1,010,111	\$943,999
Marketable securities	374,904	1,017,567
Trade accounts receivable, net	532,832	432,888
Inventories	289,874	176,441
Prepaid expenses and other current assets	217,628	225,134
Total current assets	2,425,349	2,796,029
Property, plant and equipment, net	697,025	392,248
Intangible assets, net	4,707,914	587,046
Goodwill	5,047,885	254,073
Other assets	255,057	172,566
Total assets	\$13,133,230	\$4,201,962
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$57,360	\$44,016
Accrued expenses	403,348	395,232
Deferred revenue	20,504	58,837
Current portion of long-term debt	175,000	48,000
Other current liabilities	62,038	60,655
Total current liabilities	718,250	606,740
Long-term debt, less current portion	3,281,250	9,500
Contingent consideration	121,424	116,425
Facility lease obligation	151,307	107,099
Deferred tax liabilities	528,990	7,046
Other liabilities	73,393	53,134
Total liabilities	4,874,614	899,944
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Preferred stock, \$.0001 par value; 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$.0001 par value; 290,000 shares authorized; 230,498 and 201,944 shares issued at December 31, 2015 and 2014, respectively	23	20
Additional paid-in capital	7,726,560	2,592,167
Treasury stock, at cost, 4,851 and 2,888 shares at December 31, 2015 and 2014, respectively	(710,663)	(382,964)
Accumulated other comprehensive income	62,301	56,785
Retained earnings	1,180,395	1,036,010
Total stockholders' equity	8,258,616	3,302,018
Total liabilities and stockholders' equity	\$13,133,230	\$4,201,962

The accompanying notes are an integral part of these consolidated financial statements.

Alexion Pharmaceuticals, Inc.
Consolidated Statements of Operations
(amounts in thousands, except per share amounts)

	Year Ended December 31,		
	2015	2014	2013
Net product sales	\$2,602,532	\$2,233,733	\$1,551,346
Other revenue	1,515	—	—
Total revenues	2,604,047	2,233,733	1,551,346
Cost of sales:			
Cost of sales	233,089	173,862	168,375
Change in contingent liability from intellectual property settlements	—	—	9,181
Total cost of sales	233,089	173,862	177,556
Operating expenses:			
Research and development	709,472	513,782	317,093
Selling, general and administrative	862,595	630,209	489,720
Amortization of purchased intangible assets	116,584	—	417
Change in fair value of contingent consideration	64,257	20,295	4,006
Acquisition-related costs	39,210	—	1,023
Restructuring expenses	42,169	15,365	—
Impairment of intangible assets	—	11,514	33,521
Total operating expenses	1,834,287	1,191,165	845,780
Operating income	536,671	868,706	528,010
Other income and expense:			
Investment income	8,519	8,373	3,346
Interest expense	(47,744)) (2,982) (4,112)
Foreign currency gain (loss)	696	(1,990) (975)
Income before income taxes	498,142	872,107	526,269
Income tax provision	353,757	215,195	273,374
Net income	\$144,385	\$656,912	\$252,895
Earnings per common share			
Basic	\$0.68	\$3.32	\$1.29
Diluted	\$0.67	\$3.26	\$1.27
Shares used in computing earnings per common share			
Basic	213,431	198,103	195,532
Diluted	215,933	201,623	199,712

The accompanying notes are an integral part of these consolidated financial statements.

Alexion Pharmaceuticals, Inc.
Consolidated Statements of Comprehensive Income
(amounts in thousands)

	Year Ended December 31,		
	2015	2014	2013
Net income	\$144,385	\$656,912	\$252,895
Other comprehensive income (loss), net of tax:			
Foreign currency translation	(6,276)	(6,337)	(4,573)
Unrealized losses on marketable securities	(551)	(88)	(146)
Unrealized gains (losses) on pension obligation	6,981	(5,068)	(5,790)
Unrealized gains (losses) on hedging activities, net of tax of \$5,643, \$45,448 and \$(871), respectively	5,362	91,135	(18,983)
Other comprehensive income (loss), net of tax	5,516	79,642	(29,492)
Comprehensive income	\$149,901	\$736,554	\$223,403

The accompanying notes are an integral part of these consolidated financial statements.

Alexion Pharmaceuticals, Inc.

Consolidated Statements of Changes in Stockholders' Equity

(amounts in thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock at Cost		Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Stockholders' Equity
	Shares Issued	Amount		Shares	Amount			
Balances, December 31, 2012	194,918	\$ 20	\$1,852,221	227	\$(14,229)	\$ 6,635	\$126,203	\$1,970,850
Repurchase of common stock	—	—	—	758	(66,136)	—	—	(66,136)
Issuance of common stock from exercise of options	2,481	—	71,281	—	—	—	—	71,281
Issuance of restricted common stock	542	—	—	—	—	—	—	—
Excess tax benefit from stock options	—	—	105,714	—	—	—	—	105,714
Share-based compensation expense	—	—	76,967	—	—	—	—	76,967
Net income	—	—	—	—	—	—	252,895	252,895
Other comprehensive loss	—	—	\$—	—	—	(29,492)	—	\$(29,492)
Balances, December 31, 2013	197,941	\$ 20	\$2,106,183	985	\$(80,365)	\$ (22,857)	\$379,098	\$2,382,079
Repurchase of common stock	—	—	—	1,903	(302,599)	—	—	(302,599)
Issuance of common stock from exercise of options	3,408	—	114,350	—	—	—	—	114,350
Issuance of restricted common stock	595	—	—	—	—	—	—	—
Excess tax benefit from stock options	—	—	—	—	—	—	—	—