

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

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 20-F/A**

**(Amendment No. 1)**

(Mark One)

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

**OR**

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

**OR**

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

**OR**

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

**Commission file number: 001-13896**

**Elan Corporation, plc**

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

**Ireland**

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

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*(Jurisdiction of incorporation*

**Dublin 2, Ireland**

*or organization)*

*(Address of principal executive offices)*

**William Daniel, Secretary**

**Elan Corporation, plc**

**Treasury Building, Lower Grand Canal Street**

**Dublin 2, Ireland**

**011-353-1-709-4000**

**liam.daniel@elan.com**

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

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

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

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

**None**

*(Title of Class)*

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

**None**

*(Title of Class)*

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

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

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

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**EXPLANATORY NOTE**

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

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

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

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

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

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

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

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

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

**Item 18. Consolidated Financial Statements.**

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements of Elan Corporation, plc and subsidiaries

Notes to the Consolidated Financial Statements



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Elan Corporation, plc:

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

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

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

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

/s/ KPMG

Dublin, Ireland

February 12, 2013

## Elan Corporation, plc

## Consolidated Statements of Operations

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

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

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





## Elan Corporation, plc

## Statements of Consolidated Comprehensive Income

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

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

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

## Elan Corporation, plc

## Consolidated Balance Sheets

As of December 31, 2012 and 2011

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

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

## Elan Corporation, plc

## Consolidated Statements of Changes In Shareholders' Equity

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

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

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

## Elan Corporation, plc

## Consolidated Statements of Cash Flows

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

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

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Net cash used in financing activities	(198.8)	(691.0)	(266.1)
Effect of exchange rate changes on cash	(0.1)	(0.1)	(0.1)
Net increase/(decrease) in cash and cash equivalents	159.6	(150.8)	(414.0)
Cash and cash equivalents at beginning of year	271.7	422.5	836.5
Cash and cash equivalents at end of year	\$ 431.3	\$ 271.7	\$ 422.5

**Supplemental cash flow information:**

Cash paid during the year for:

Interest	\$ (54.0)	(108.1)	\$ (117.2)
Income taxes	\$ (0.8)	(1.5)	\$ (0.4)

Non-cash investing activities:

Purchase of equity method investment	\$	(528.6)	\$
Transfer of assets, net of liabilities to Prothena Corporation, plc (Note 28).	\$ 3.2		\$

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

**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business**

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

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

**2. Significant Accounting Policies**

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

***(a) Basis of consolidation and presentation of financial information***

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

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

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

***(b) Restatement***

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

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

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

*(c) Use of estimates*

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



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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(d) Fair value measurements***

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

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

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

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

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

***(e) Cash and cash equivalents***

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

***(f) Accounts receivable***

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

***(g) Investment securities and impairment***

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

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

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

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

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**Elan Corporation, plc**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

**(h) Inventory**

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

**(i) Property, plant and equipment**

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

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

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

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

**(j) Leasing**

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

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

**(k) Goodwill, other intangible assets and impairment**

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

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



**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

***(I) Equity method investments***

***Janssen AI***

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

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



**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

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

*Proteostasis Therapeutics, Inc.*

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

*Alkermes plc*

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





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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

***(m) Financing costs***

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

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

***(n) Derivative financial instruments***

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

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

**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(o) Discontinued operations and assets held for sale***

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

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

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

*Tysabri*

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

*Prothena*

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

*EDT*

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

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

**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(p) Revenue**

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

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

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

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

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

**(q) Sales discounts and allowances**

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

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

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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Charge-backs*

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

*Medicaid rebates*

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

*Cash and other discounts*

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

*Managed healthcare rebates and other contract discounts*

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

*Sales returns*

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

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

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

and adjust the sales returns accrual and revenue as appropriate.

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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Other adjustments*

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

*Use of information from external sources*

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

*(r) Advertising expenses*

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

*(s) Research and development*

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

*(t) Income Taxes*

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

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



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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

***(u) Accumulated other comprehensive income/(loss)***

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

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

***(v) Foreign operations***

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

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

***(w) Share-based compensation***

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

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

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

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





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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(x) Pensions and other employee benefit plans***

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

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

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

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

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

***(y) Contingencies***

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

***(z) Non-cash distribution to shareholders***

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

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



## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*(aa) Recent accounting pronouncements*

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

**3. Revenue**

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

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

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

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

**4. Segment Information**

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

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

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

*Total assets by region (in millions):*

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

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

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

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

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

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Total goodwill and other intangible assets	\$ 99.0	\$ 309.9
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## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Major customers*

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

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

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

**5. Net Gain on Divestment of Business**

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

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

**6. Other Net Charges**

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

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

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

*(a) Facilities and other asset impairment charges*

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





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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

*(b) Severance, restructuring and other costs*

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

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

*(c) In-process research and development costs*

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

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

*(d) Cambridge collaboration termination charge*

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

*(e) Legal settlements*

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

*(f) Divestment of Prialt business*

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



## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**7. Settlement Reserve Charge**

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

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

**8. Net Interest Expense**

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

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

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

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 9. Equity Method Investments

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

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

Janssen AI

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

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

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

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Proteostasis

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

Alkermes plc

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

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

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

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

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

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

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Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**10. Net Charge on Debt Retirement**

*2012*

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

*2011*

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

*2010*

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

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



## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 11. Income Taxes

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

	2012	2011	2010
<b>Continuing Operations:</b>			
Irish corporation tax current	\$	\$	\$ 0.5
Irish corporation tax deferred	(369.0)	(37.0)	(29.8)
Foreign taxes current	0.6	(3.4)	1.5
Foreign taxes deferred	7.9	28.4	(24.4)
Benefit from income taxes continuing operations	(360.5)	(12.0)	(52.2)
<b>Discontinued Operations:</b>			
Irish corporation tax current			
Irish corporation tax deferred	34.0	36.9	28.5
Foreign taxes current			
Foreign taxes deferred	26.7	22.7	25.8
Provision for income taxes discontinued operations	60.7	59.6	54.3
Provision for/(benefit from) income taxes continuing and discontinued operations	\$ (299.8)	\$ 47.6	\$ 2.1
Total current taxes	0.6	(3.4)	2.0
Total deferred taxes	(300.4)	51.0	0.1
Tax expense reported in shareholders equity related to equity awards			2.4

The net tax benefit for 2012 for continuing operations was a credit of \$360.5 million (2011: \$12.0 million benefit; 2010: \$52.2 million benefit). The net tax benefits for each of the three years ended December 31, 2012, 2011 and 2010 reflects the availability of Irish and U.S. losses and Irish and U.S. income taxes at standard rates in the jurisdictions in which we operate. In 2012, we did not record any adjustment to shareholders equity (2011: \$Nil; 2010: \$2.4 million reduction) to reflect tax shortfalls or windfalls related to equity awards.

Current tax, including Irish corporation tax and foreign taxes, is provided on our taxable profits, using the tax rates and laws that have been enacted by the balance sheet date. In each of the three years ended December 31, 2012, 2011 and 2010, substantially all of our income in Ireland was not subject to tax due to the availability of tax losses or other tax reliefs.

The total deferred tax benefit of \$361.1 million for continuing operations for 2012 (2011: \$8.6 million benefit; 2010: \$54.2 million benefit) includes an Irish deferred tax credit of \$369.0 million and a U.S. deferred tax expense of \$7.9 million. The Irish deferred tax credit of \$369.0 million relates primarily to the recognition of DTAs the benefits of which will more likely than not be recognized by off-setting Irish taxable income arising from the *Tysabri* divestment announced on February 6, 2013 and the availability of current year Irish losses that are used to off-set profits attributable to discontinued operations. The U.S. deferred tax expense of \$7.9 million relates primarily to an increase in the valuation allowance relating to U.S. deferred tax assets we are unlikely to benefit from given the reduced recurring U.S. income going forward as a result of the *Tysabri* divestment in 2013, offset by the availability of current year U.S. losses that are used to off-set profits attributable to discontinued operations.

In 2011, the \$8.6 million deferred tax benefit was primarily due to the availability of Irish and U.S. losses arising on continuing operations offset by a \$40.0 million charge arising due to the application of new state tax income attribution rules. Following the introduction of these new rules, we no longer expected to benefit from certain state tax loss and credit carry forwards and therefore reduced our state DTAs by this amount.

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In 2010, the \$54.2 million deferred tax benefit was primarily due to the availability of Irish and U.S. losses arising on continuing operations which were used to offset profits attributable to discontinued operations.

For a commentary on the net tax charge attributable to discontinued operations for the three years ended December 31, 2012, 2011 and 2010 please refer to Note 12.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The effective tax rate differs from the Irish tax rate of 12.5% as follows (in millions):

	2012	2011	2010
Net loss before tax from continuing operations	\$ (733.2)	\$ (465.5)	\$ (613.5)
Irish standard tax rate	12.5%	12.5%	12.5%
Taxes at the Irish standard rate	(91.6)	(58.2)	(76.7)
Irish income at rates other than Irish standard rate	0.1	0.6	(0.6)
Foreign income at rates other than the Irish standard rate	(50.5)	(44.8)	(85.9)
Deferred tax impact of new income tax rules		40.0	
Adjustments to valuation allowance	(240.8)	41.9	47.7
Zonegran settlement <sup>(1)</sup>			59.2
Expenses/losses deriving no tax benefit	4.0	0.5	0.5
Impairment of carrying value of Janssen AI investment	14.7		
Other	3.6	8.0	3.6
Benefit from income taxes	\$ (360.5)	\$ (12.0)	\$ (52.2)

<sup>(1)</sup> In 2010, \$169.2 million of the \$206.3 million settlement reserve charge related to the Zonegran global settlement resolving all U.S. federal and related state Medicaid claims will not be deductible for tax purposes, thus creating a \$59.2 million difference in the 2010 tax rate reconciliation.

The Irish income rate differential reconciling item of \$0.1 million for the year ended December 31, 2012 and \$0.6 million for the year ended December 31, 2011, primarily relate to profits arising in Elan Finance plc which are taxable at the higher rate of 25%.

The foreign rate differential reconciling item of \$50.5 million for the year ended December 31, 2012, was comprised primarily of a \$32.3 million tax reduction related to Bermudian income, a \$1.1 million tax reduction in ROW income and a \$17.1 million benefit related to U.S. losses. The foreign rate differential reconciling item of \$44.8 million for the year ended December 31, 2011, was comprised of a \$33.2 million tax reduction related to the Bermudian income, a \$13.0 million benefit related to U.S. losses partially off-set by an increase of \$1.4 million related to ROW income. The foreign rate differential reconciling item of \$85.9 million for the year ended December 31, 2010, was comprised of a \$46.4 million tax reduction related to the Zonegran settlement charge of \$206.3 million, and a \$33.5 million tax reduction related to Bermudian income, and a \$6.0 million benefit related to U.S. losses.

The valuation allowance differential reconciling item of \$240.8 million for the year ended December 31, 2012 relates primarily to the recognition of Irish DTAs expected to be utilized in 2013 as a result of the announced *Tysabri* divestment. This is partially offset by a U.S. deferred tax charge arising from the increase in the U.S. valuation allowance on DTAs from which we are now unlikely to benefit.

Distribution of net loss for continuing operations before provision for income taxes by geographical area for the years ended December 31 consisted of the following (in millions):

	2012	2011	2010
Ireland	\$ (926.8)	\$ (688.2)	\$ (632.9)
Foreign	193.6	222.7	19.4
Net loss before provision for income taxes	\$ (733.2)	\$ (465.5)	\$ (613.5)



## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Deferred Tax

The full potential amounts of deferred tax at December 31 of each year consisted of the following deferred tax assets and liabilities (in millions):

	2012	2011
Deferred tax liabilities:		
Property, plant and equipment	\$	\$ (0.3)
<b>Total deferred tax liabilities</b>	<b>\$</b>	<b>\$ (0.3)</b>
Deferred tax assets:		
Net operating losses	\$ 354.4	\$ 327.5
Deferred interest	263.0	236.4
Intangibles/capitalized items	6.2	8.2
Tax credits	85.3	84.8
Reserves/provisions	31.5	41.1
Property, plant and equipment	6.0	6.8
Share-based compensation expense	30.7	30.8
Other	27.9	16.4
<b>Total deferred tax assets</b>	<b>\$ 805.0</b>	<b>\$ 752.0</b>
Valuation allowance	\$ (359.5)	\$ (606.6)
<b>Net deferred tax asset</b>	<b>\$ 445.5</b>	<b>\$ 145.1</b>

Net deferred tax asset is presented as:

	2012	2011
Current deferred tax asset	\$ 380.9	\$ 26.2
Non-current deferred tax asset	64.6	118.9
<b>Net deferred tax asset</b>	<b>\$ 445.5</b>	<b>\$ 145.1</b>

The deferred interest DTA of \$263.0 million (2011: \$236.4 million) includes \$255.8 million (2011: \$231.3 million) related to Ireland and \$7.2 million (2011: \$5.1 million) related to the U.S.

The Irish deferred interest represents accrued but unpaid interest incurred on group financing facilities. Under Irish tax law, the interest is deductible for tax only when paid. Accordingly, the DTA represents the potential future tax benefit of the deferred interest expense once it has been paid.

The U.S. deferred interest reflects excess group interest expense carry-forwards that were not deductible for tax when paid due to thin capital restrictions under Section 163(j) of the Internal Revenue Code which can be carried forward for use against future U.S. profits. Accordingly, the DTA represents the potential future tax benefit of the excess group interest expense carry-forwards when utilized.

The valuation allowance recorded against the DTAs as of December 31, 2012, was \$359.5 million. The net change in the valuation allowance for 2012 was a reduction of \$247.1 million (2011: \$26.4 million reduction; 2010: \$46.7 million increase). The decrease in the valuation allowance of \$247.1 million in 2012 arises primarily as a result of a \$279.8 million decrease in the Irish valuation allowance and a \$32.7 million increase in

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the U.S. valuation allowance. This net reduction in the valuation allowance primarily arises as a result of the *Tysabri* divestment and its impact on the recoverability of both our Irish and U.S. deferred tax benefits. In 2011, the reduction in the valuation allowance included the disposal of approximately \$60 million of EDT DTAs following the sale of EDT to Alkermes plc. A full valuation allowance was previously recorded against these DTAs.

We have adjusted the above DTAs in relation to net operating losses to exclude stock option deductions for which we have had no book expense. In 2012, we did not record any adjustment to shareholders' equity (2011: \$Nil; 2010: \$2.4 million reduction) to reflect tax shortfalls or windfalls related to equity awards.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The gross amounts of unused tax loss carryforwards with their expiration dates after adjusting for uncertain tax positions are as follows (in millions):

	At December 31, 2012				Total
	Ireland	U.S. State	U.S. Federal	Rest of World	
One year	\$	\$	\$	\$ 5.0	\$ 5.0
Two years					
Three years		41.0			41.0
Four years		83.3		1.1	84.4
Five years		18.9		0.9	19.8
More than five years	2,615.5	79.4	523.4		3,218.3
Total	\$ 2,615.5	\$ 222.6	\$ 523.4	\$ 7.0	\$ 3,368.5

At December 31, 2012, certain of our Irish subsidiaries had net operating loss carryovers for income tax purposes of \$2,615.5 million. These can be carried forward indefinitely but are limited to the same trade/trades.

At December 31, 2012, certain U.S. subsidiaries had net operating loss carryovers for federal income tax purposes of approximately \$523.4 million and for state income tax purposes of approximately \$222.6 million. These net operating losses include stock option deductions. The federal net operating losses expire from 2018 to 2032. The state net operating losses expire from 2015 to 2032. In addition, at December 31, 2012, certain U.S. subsidiaries had federal research credit carryovers of \$40.0 million; orphan drug credit carryovers of \$9.7 million and alternative minimum tax (AMT) credits of \$6.0 million. The \$40.0 million of research credits will expire from 2018 through 2031 and the \$9.7 million of orphan drug credits will expire from 2018 through 2020. The AMT credits will not expire. Certain U.S. subsidiaries also had state credit carryovers of \$50.3 million which can be carried to subsequent tax years indefinitely. Due to the reduced recurring income as a result of the *Tysabri* divestment in 2013, we reviewed all federal and state deferred tax assets and recognized an additional valuation allowance against those deferred tax assets from which we do not expect to benefit. We have not had changes in ownership as described in the U.S. Internal Revenue Code Section 382 in 2012, 2011 or 2010.

The remaining loss carryovers of \$7.0 million have arisen in The Netherlands and are subject to time limits and other local rules.

At December 31, 2012 approximately \$559.0 million of net operating losses are derived from stock option exercises and we may record a credit of up to \$171.7 million to shareholder's equity to the extent that these losses are utilized in the future.

No taxes have been provided for the unremitted earnings of our overseas subsidiaries as any tax basis differences relating to investments in these overseas subsidiaries are considered to be permanent in duration. No taxable remittances have occurred during the last 3 years. Cumulative unremitted earnings of overseas subsidiaries totaled approximately \$3,235.9 million at December 31, 2012 (2011: \$2,973.9 million). Unremitted earnings may be liable to Irish taxation (potentially at a rate of 12.5%) if they were to be distributed as dividends.

Our gross unrecognized tax benefits at December 31, 2012, were \$61.7 million (2011: \$61.5 million; 2010: \$73.4 million), of which \$52.8 million (2011: \$48.4 million; 2010: \$72.2 million), if recognized, would affect the tax charge and as such would impact the effective tax rate. We report accrued interest and penalties related to unrecognized tax benefits in income tax expense. During 2012, we did not accrue any interest relating to unrecognized tax benefits and in total, as of December 31, 2012, we have recorded a liability for potential penalties and interest of \$0.5 million and \$1.8 million, respectively.

We expect our unrecognized tax benefits to increase by approximately \$25 million in 2013 as a result of the *Tysabri* Transaction.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Activity related to our unrecognized tax benefits for the years ended December 31, 2012, consisted of the following (in millions):

	2012	2011	2010
Balance at January 1	\$ 61.5	\$ 73.4	\$ 71.3
Tax positions related to current year:			
Additions	3.4	3.3	3.2
Tax positions related to prior years:			
Additions	0.5		
Reduction	(0.3)	(13.1)	(1.0)
Settlements		(2.1)	
Expiration of statutes of limitations	(3.4)		(0.1)
Balance at December 31	\$ 61.7	\$ 61.5	\$ 73.4

Our major taxing jurisdictions include Ireland and the United States (federal and state). These jurisdictions have varying statutes of limitations. In the United States, the 2008 through 2012 tax years generally remain subject to examination by the respective tax authorities. Additionally, because of our U.S. loss carryforwards, years from 1998 through 2006 may be adjusted. These years generally remain open for three to four years after the loss carryforwards have been utilized. In Ireland, the tax years 2008 to 2012 remain subject to examination by the Irish tax authorities.

## 12. Discontinued Operations

### *Tysabri*

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

As a result of the decision to dispose of the *Tysabri* asset rights, the results of *Tysabri* for the year ended December 31, 2012, are presented as a discontinued operation in the Consolidated Statements of Operations and the comparative amounts have been restated to reflect this classification. The assets of the *Tysabri* business have been presented as held for sale as of December 31, 2012. Refer to Note 15 for additional information on these assets held for sale.

### *Prothena*

On December 20, 2012, we completed the separation of the Prothena Business into a new, publicly traded company incorporated in Ireland. The issued share capital of Prothena was admitted to trading on the NASDAQ Global Market on December 21, 2012. Prothena focuses on the discovery and development of novel antibodies for the potential treatment of a broad range of diseases that involve protein misfolding or cell adhesion. The separation of the Prothena Business from Elan was completed through a demerger under Irish law. The demerger was effected by Elan transferring our wholly-owned subsidiaries comprising the Prothena Business to Prothena, in exchange for Prothena issuing Prothena ordinary shares directly to Elan shareholders, on a pro rata basis. Prothena's issuance of its outstanding shares constituted a deemed in specie distribution by Elan to Elan shareholders. Each Elan shareholder received one Prothena ordinary share for every 41 Elan ordinary shares or Elan ADSs held. The total value of the Prothena in specie distribution of \$105.7 million was based on the carrying value of the net assets that were transferred to Prothena in connection with the separation and distribution. For additional information on the Prothena distribution in specie, refer to Note 28.





**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Immediately following the separation of the Prothena Business, a wholly owned subsidiary of Elan subscribed for 3.2 million newly-issued ordinary shares of Prothena, representing 18% of the outstanding ordinary shares of Prothena. This investment was recorded as an available for sale investment on the Consolidated Balance Sheet at an initial fair value of \$22.9 million.

The financial results of the Prothena Business for the period up to December 20, 2012, the effective date of the separation, have been presented as a discontinued operation in the 2012 Consolidated Statements of Operations and comparative amounts have been restated to reflect this classification.

*EDT*

On September 16, 2011, we announced the completion of the merger between Alkermes, Inc. and EDT following the approval of the merger by Alkermes, Inc. shareholders on September 8, 2011. Alkermes, Inc. and EDT were combined under a new holding company incorporated in Ireland named Alkermes plc. In connection with the transaction, we received \$500.0 million in cash and 31.9 million ordinary shares of Alkermes plc. At the close of the transaction, we held approximately 25% of the equity of Alkermes plc, with the existing shareholders of Alkermes, Inc. holding the remaining 75% of the equity. Alkermes plc shares are registered in the United States and trade on the NASDAQ stock market. Our equity interest in Alkermes plc was recorded as an equity method investment on the Consolidated Balance Sheet at an initial carrying value of \$528.6 million, based on the closing share price of \$16.57 of Alkermes, Inc. shares on the date of the transaction.

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

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

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

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (a) Income statement

The income statement financial information relating to *Tysabri* for the years ended December 31, 2012, 2011 and 2010; the Prothena Business for the period up to December 20, 2012 and the years ended December 31, 2011 and 2010; and the EDT business for the years ended December 31, 2012, 2011 and 2010, are set out below (in millions):

2012	Tysabri	Prothena	EDT	Total
Revenue	\$ 1,202.6	\$	\$	\$ 1,202.6
Cost of sales	655.5			655.5
Gross margin	547.1			547.1
Operating expenses:				
Selling, general and administrative expenses	113.2	2.0		115.2
Research and development expenses	62.0	31.3		93.3
Net loss on divestment of business		17.9		17.9
Other net charges	4.2			4.2
Total operating expenses	179.4	51.2		230.6
Operating income/(loss)	367.7	(51.2)		316.5
Net interest and investment gains and losses:				
Net interest expense				
Net loss on disposal of equity method investment			13.3	13.3
Net loss on equity method investments			7.2	7.2
Net interest expense			20.5	20.5
Net income/(loss) from discontinued operations before income taxes	367.7	(51.2)	(20.5)	296.0
Provision for/(benefit from) income taxes	65.7	(5.0)		60.7
Net income/(loss) from discontinued operations (net of tax)	\$ 302.0	\$ (46.2)	\$ (20.5)	\$ 235.3
2011	Tysabri	Prothena	EDT	Total
Revenue	\$ 1,064.1	\$	\$ 177.9	\$ 1,242.0
Cost of sales	571.9		67.0	638.9
Gross margin	492.2		110.9	603.1
Operating expenses:				
Selling, general and administrative expenses	96.1	1.6	23.8	121.5
Research and development expenses	67.7	23.7	34.3	125.7
Net gain on divestment of business			(652.9)	(652.9)
Other net charges/(gains)	1.6		(68.1)	(66.5)
Total operating expenses/(gains)	165.4	25.3	(662.9)	(472.2)
Operating income/(loss)	326.8	(25.3)	773.8	1,075.3

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Net interest and investment gains and losses:				
Net interest expense			1.0	1.0
Net loss on equity method investments			0.7	0.7
Net interest and investment gains and losses			1.7	1.7
Net income/(loss) from discontinued operations before income taxes	326.8	(25.3)	772.1	1,073.6
Provision for/(benefit from) income taxes	56.4	(2.5)	5.7	59.6
Net income/(loss) from discontinued operations (net of tax)	\$ 270.4	\$ (22.8)	\$ 766.4	\$ 1,014.0

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2010	Tysabri	Prothena	EDT	Total
Revenue	\$ 851.5	\$	\$ 274.1	\$ 1,125.6
Cost of sales	452.7		118.4	571.1
Gross margin	398.8		155.7	554.5
Operating expenses:				
Selling, general and administrative expenses	90.8	0.8	38.9	130.5
Research and development expenses	67.8	8.7	53.7	130.2
Other net charges	1.2		2.3	3.5
Total operating expenses	159.8	9.5	94.9	264.2
Operating income/(loss)	239.0	(9.5)	60.8	290.3
Net interest income			(0.6)	(0.6)
Net income/(loss) from discontinued operations before income taxes	239.0	(9.5)	61.4	290.9
Provision for income taxes	43.3	0.2	10.8	54.3
Net income/(loss) from discontinued operations (net of tax)	\$ 195.7	\$ (9.7)	\$ 50.6	\$ 236.6

**(b) Cash Flows**

The cash flows attributable to discontinued operations for the years ended December 31, 2012, 2011 and 2010 are set out below (in millions):

2012	Tysabri	Prothena	EDT	Total
Net cash provided by/(used in) operating activities	\$ 383.0	\$ (53.0)	\$	\$ 330.0
Net cash used in financing activities		(125.0)		(125.0)
Net cash (used in)/provided by investing activities		(1.3)	380.9	379.6
Net cash provided by/(used in) discontinued operations	\$ 383.0	\$ (179.3)	\$ 380.9	\$ 584.6
2011	Tysabri	Prothena	EDT	Total
Net cash provided by/(used in) operating activities	\$ 338.8	\$ (19.7)	\$ 114.4	\$ 433.5
Net cash (used in)/provided by investing activities		(0.6)	492.2	491.6
Net cash provided by/(used in) discontinued operations	\$ 338.8	\$ (20.3)	\$ 606.6	\$ 925.1
2010	Tysabri	Prothena	EDT	Total
Net cash provided by/(used in) operating activities	\$ 257.1	\$ (9.1)	\$ 112.3	\$ 360.3
Net cash used in investing activities		(2.6)	(15.3)	(17.9)
Net cash provided by/(used in) discontinued operations	\$ 257.1	\$ (11.7)	\$ 97.0	\$ 342.4

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (c) Revenue

*Tysabri* Revenue:

*Tysabri* revenue for the years ended December 31, 2012, 2011 and 2010 consisted of the following (in millions):

	2012	2011	2010
Product revenue:			
<i>Tysabri</i> U.S.	\$ 886.0	\$ 746.5	\$ 593.2
<i>Tysabri</i> ROW	316.6	317.6	258.3
Total <i>Tysabri</i> revenue	\$ 1,202.6	\$ 1,064.1	\$ 851.5

Until the *Tysabri* Transaction closes, *Tysabri* continues to be marketed by Elan in collaboration with Biogen Idec and, subject to certain limitations imposed by the parties, we share with Biogen Idec most of the development and commercialization costs for *Tysabri*. Biogen Idec is responsible for manufacturing the product. In the United States, we purchase *Tysabri* from Biogen Idec and are responsible for distribution. Consequently, we record as revenue the net sales of *Tysabri* in the U.S. market. We purchase product from Biogen Idec at a price that includes the cost of manufacturing, plus Biogen Idec's gross profit on *Tysabri*, and this cost, together with royalties payable to other third parties, is included in cost of sales.

Global in-market net sales of *Tysabri* for the years ended December 31 consisted of the following (in millions):

	2012	2011	2010
United States	\$ 886.0	\$ 746.5	\$ 593.2
ROW	745.1	764.1	636.8
Total <i>Tysabri</i> global in-market net sales	\$ 1,631.1	\$ 1,510.6	\$ 1,230.0

Until the *Tysabri* Transaction closes, outside of the United States, Biogen Idec is responsible for distribution and we record as revenue our share of the profit or loss on these sales of *Tysabri*, plus the reimbursement from Biogen Idec of Elan's directly incurred expenses on these sales, which are primarily comprised of royalties, that we incur and are payable by us to third parties, and which we record in cost of sales.

In 2012, we recorded net *Tysabri* ROW revenue of \$316.6 million (2011: \$317.6 million; 2010: \$258.3 million), which was calculated as follows (in millions):

	2012	2011	2010
ROW in-market sales by Biogen Idec	\$ 745.1	\$ 764.1	\$ 636.8
ROW operating expenses incurred by Elan and Biogen Idec	(316.3)	(349.3)	(303.8)
ROW operating profit generated by Elan and Biogen Idec	428.8	414.8	333.0
Elan's 50% share of <i>Tysabri</i> ROW collaboration operating profit	214.4	207.4	166.5
Elan's directly incurred costs	102.2	110.2	91.8

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Net Tysabri ROW revenue	\$ 316.6	\$ 317.6	\$ 258.3
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## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*EDT Revenue:*

Revenue from the EDT business for the period up to September 16, 2011, the date of divestment of the EDT business, and for the year ended December 31, 2010 consisted of the following (in millions):

	2011	2010
<b>Product revenue:</b>		
Manufacturing revenue and royalties:		
TriCor <sup>®</sup> 145	\$ 35.5	\$ 54.5
Focalin <sup>®</sup> XR/Ritalin <sup>®</sup> LA	25.9	33.0
Ampyra <sup>®</sup>	22.6	56.8
Verelan <sup>®</sup>	18.1	21.8
Naprelan <sup>®</sup>	5.9	12.6
Skelaxin <sup>®</sup>		5.9
Other	60.0	76.8
<b>Total product revenue from the EDT business</b>	<b>168.0</b>	<b>261.4</b>
<b>Contract revenue:</b>		
Research revenue	6.0	8.2
Milestone payments	3.9	4.5
<b>Total contract revenue from the EDT business</b>	<b>9.9</b>	<b>12.7</b>
<b>Total revenue from the EDT business</b>	<b>\$ 177.9</b>	<b>\$ 274.1</b>

**(d) Net Gain on Divestment of Business***Disposal of the Prothena Business*

The net loss recorded on the divestment of the Prothena Business during 2012 was \$17.9 million, primarily comprised of transaction and other costs of \$17.1 million and a share-based compensation charge of \$0.8 million.

*Disposal of the EDT business*

The net gain recorded on the divestment of the EDT business for the year ended December 31, 2011 amounted to \$652.9 million, and was calculated as follows (in millions):

Cash consideration	\$ 500.0
Investment in Alkermes plc	528.6
<b>Total consideration</b>	<b>\$ 1,028.6</b>
Property, plant and equipment	(202.0)
Goodwill and other intangible assets	(53.0)
Working capital and other net assets	(84.5)
Transaction and other costs	(36.2)



Net gain on divestment of business	\$ 652.9
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## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**(e) Other Net Charges/(Gains)**

Prothena did not incur any other net gains and charges in the period to December 20, 2012, or for the years ended December 31, 2011 and December 31, 2010. Other net gains and charges from Tysabri for the years ended December 31, 2012, 2011 and 2010 and the EDT business for the period up to September 16, 2011, the date of divestment of the EDT business, and for the year ended December 31, 2010 consisted of the following (in millions):

	2012	2011	2010
(a) Severance, restructuring and other costs	\$ 4.2	\$ 11.6	\$ 3.5
(b) Facilities and other asset impairment charges		6.4	
(c) Legal settlement gains and awards		(84.5)	
Total other net (gains)/charges	\$ 4.2	\$ (66.5)	\$ 3.5

*(a) Severance, restructuring and other costs*

During 2012, we incurred severance restructuring and other costs of \$4.2 million related to the *Tysabri* business resulting from the closure of the South San Francisco facility and associated reduction in headcount.

During 2011, severance restructuring and other costs of \$11.6 million were incurred by our discontinued operations, including \$1.6 million related to the *Tysabri* business and \$10.0 million related to the closure of EDT's King of Prussia, Pennsylvania site.

During 2010, severance restructuring and other costs of \$3.5 million were incurred by our discontinued operations, including \$1.2 million related to the *Tysabri* business and \$2.3 million related to the realignment of resources in the EDT business to meet our business structure.

*(b) Facilities and other asset impairment charges*

During 2011, EDT incurred asset impairment charges of \$6.4 million (2010: \$Nil), principally relating to the closure of EDT's King of Prussia, Pennsylvania site.

*(c) Legal settlement gains and awards*

In June 2008, a jury ruled in the U.S. District Court for the District of Delaware that Abraxis Biosciences, Inc. (Abraxis, since acquired by Celgene Corporation) had infringed a patent owned by EDT in relation to the application of NanoCrystal® technology to Abraxane®. EDT was awarded \$55 million, applying a royalty rate of 6% to sales of Abraxane from January 1, 2005 through June 13, 2008 (the date of the verdict), though the judge had yet to rule on post-trial motions or enter the final order. This award and damages associated with the continuing sales of the Abraxane product were subject to interest. In February 2011, EDT entered into an agreement with Abraxis to settle this litigation. As part of the settlement agreement with Abraxis, EDT received \$78.0 million in full and final settlement in March 2011 and recorded a gain of this amount.

During 2011, EDT entered into an agreement with Alcon Laboratories, Inc. (Alcon) to settle litigation in relation to the application of EDT's NanoCrystal technology. As part of the settlement agreement with Alcon, EDT received \$6.5 million in full and final settlement.

**(f) Net Loss on Disposal of Equity Method Investment**

Following the completion of the merger between Alkermes, Inc. and EDT in September 2011, we held approximately 25% of the equity of Alkermes plc (31.9 million shares) at the close of the transaction. Our equity interest in Alkermes plc was recorded as an equity method investment on the Consolidated Balance Sheet at an initial carrying amount of \$528.6 million, based on the closing share price of \$16.57 of Alkermes, Inc. shares on the date of the transaction.



## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In March 2012, we sold 76% (24.15 million ordinary shares) of our shareholding in Alkermes plc and received net proceeds of \$380.9 million, after deduction of underwriter and other fees. Following this sale we continued to own 7.75 million ordinary shares of Alkermes plc, representing an approximate 6% equity interest in Alkermes plc. Following the sale of the 24.15 million ordinary shares, our remaining equity interest in Alkermes plc ceased to qualify as an equity method investment and was recorded as an available-for-sale investment with an initial carrying value of \$126.5 million. The net loss on disposal of \$13.3 million was calculated as follows (in millions):

Share proceeds	\$ 398.5
Initial carrying value of available for sale investment	126.5
Carrying value of equity method investment divested	(520.7)
Transaction costs	(17.6)
<b>Net loss</b>	<b>\$ (13.3)</b>

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

**(g) Net Loss on Equity Method Investment**

For the year ended December 31, 2012, we recorded a net loss on the equity method investment of \$7.2 million (2011: \$0.7 million) related to our share of the losses of Alkermes plc in the period prior to the disposal of the 24.15 million ordinary shares of Alkermes plc.

For additional information relating to our equity method investments, refer to Note 9 to the Consolidated Financial Statements. For additional information relating to our available for sale investments, refer to Note 17.

**(h) Provision for Taxes**

The net tax charge attributable to discontinued operations for the year ended December 31, 2012 reflects Irish and U.S. income taxes on *Tysabri* profits and an Irish and U.S. tax benefit on Prothena losses.

The net tax charge attributable to discontinued operations for the year ended December 31, 2011 reflects Irish and U.S. income taxes on *Tysabri* profits, an Irish tax benefit on Irish Prothena Business losses, U.S. income taxes on U.S. Prothena profits, Irish taxes on EDT Irish profits and a U.S. tax benefit on EDT U.S. losses.

The net tax charge attributable to discontinued operations for the year ended December 31, 2010 reflects Irish and U.S. income taxes on *Tysabri* profits, an Irish tax benefit on Irish Prothena Business losses, a U.S. income taxes on U.S. Prothena profits and Irish and U.S. income taxes on EDT profits.

The net tax charges for each of the three years ended December 31, 2012, 2011 and 2010 have been classified as deferred as the net profits attributed to discontinued operations were off-set by losses arising in continuing operations. A corresponding net tax benefit reflecting this off-set has been included in the deferred taxes attributable to continuing operations in the Consolidated Statements of Operations for each of the three years ended December 31, 2012, 2011 and 2010.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 13. Net Income/(Loss) Per Share

Basic income/(loss) per share is computed by dividing the net income/(loss) for the period available to ordinary shareholders by the weighted-average number of Ordinary Shares outstanding during the period. Diluted net income/(loss) per share is computed by dividing the net income/(loss) for the period by the weighted-average number of Ordinary Shares outstanding and, when dilutive, adjusted for the effect of all dilutive potential Ordinary Shares, including stock options and RSUs.

	2012	2011 (in millions)	2010
Net loss continuing operations	\$ (372.7)	\$ (453.5)	\$ (561.3)
Net income discontinued operations	235.3	1,014.0	236.6
Net (loss)/income total operations	\$ (137.4)	\$ 560.5	\$ (324.7)

Basic and diluted net income/(loss) per share for the years ended December 31 is as follows:

<b>Basic and diluted earnings/(loss) per share:</b>			
From continuing operations	\$ (0.63)	\$ (0.77)	\$ (0.96)
From discontinued operations	0.40	1.73	0.40
Total attributable to the ordinary shareholders of the Parent Company	\$ (0.23)	\$ 0.95	\$ (0.56)

<b>Basic and diluted weighted average number of ordinary shares outstanding (in millions) continuing and discontinued operations and total operations</b>			
	592.4	587.6	584.9

As of December 31, 2012, there were stock options and RSUs outstanding of 21.6 million shares (2011: 23.4 million shares; 2010: 22.9 million shares). All of these stock options and RSUs were anti-dilutive in 2012, 2011 and 2010 but could potentially have a dilutive impact in the future.

## 14. Restricted Cash

We had total restricted cash (current and non-current) of \$16.3 million at December 31, 2012 (2011: \$16.3 million), which relates to amounts pledged to secure certain letters of credit.

## 15. Assets Held for Sale

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

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The assets of the *Tysabri* business have been presented as held for sale as of December 31, 2012. The major classes of assets of the *Tysabri* business presented as held for sale are as follows:

	2012
Goodwill	\$ 110.8
Other intangible assets	84.4
Inventory	24.9
Total	\$ 220.1

Refer to Note 12 for information on the results of *Tysabri* for the years ended December 31, 2012, 2011 and 2010, which are presented as a discontinued operation in the Consolidated Statements of Operations.

**16. Accounts Receivable**

The accounts receivable balance as of December 31, 2012, was \$193.5 million (2011: \$167.7 million). No allowances for doubtful accounts were required as of December 31, 2012 and 2011.

The following customer or collaborator accounts for more than 10% of our accounts receivable at December 31, 2012 and 2011:

	2012	2011
AmerisourceBergen Corp.	68%	65%
Biogen Idec	32%	35%

As of December 31, 2012 and 2011 there were no trade receivables past due but not impaired.

**17. Investment Securities***Current investment securities*

Current investment securities at December 31 of each year consisted of the following (in millions):

	2012	2011
Equity securities current, at cost less impairments	\$ 150.4	\$ 0.3
Unrealized gains on equity securities	17.5	0.1
Unrealized losses on equity securities		(0.1)
Total investment securities current	\$ 167.9	\$ 0.3

*Equity securities current*

Marketable equity securities consisted primarily of an equity investment in Alkermes plc. Following the completion of the merger between Alkermes, Inc. and EDT on September 16, 2011, we held approximately 25% of the equity of Alkermes plc (31.9 million shares). Our equity interest in Alkermes plc was recorded as an equity method investment on the Consolidated Balance Sheet at an initial carrying value of \$528.6 million, based on the closing share price of \$16.57 of Alkermes, Inc. shares on the date of the transaction. In March 2012, we sold 76% (24.15

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million ordinary shares) of our shareholding in Alkermes plc for net proceeds of \$380.9 million after deduction of underwriter and other fees. Following this sale, we continued to own 7.75 million ordinary shares of Alkermes plc, representing an approximate 6% equity interest in Alkermes plc. Following the sale of the 24.15 million ordinary shares, our remaining equity interest in Alkermes plc ceased to qualify as an equity method investment and was recorded as an available for sale investment with an initial carrying value of \$126.5 million. The fair market value of this investment at December 31, 2012 was \$143.5 million. For additional information relating to our net loss on disposal of the Alkermes plc equity method investment during 2012, refer to Note 9 to the Consolidated Financial Statements.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Marketable equity securities also include an equity investment in Prothena. On December 20, 2012, we completed the separation of the Prothena Business into a new, publicly traded company incorporated in Ireland. The issued share capital of Prothena was admitted to trading on the NASDAQ Global Market on December 21, 2012. In connection with the separation of the Prothena Business, a wholly owned subsidiary of Elan subscribed for 3.2 million newly-issued ordinary shares of Prothena, representing 18% of the outstanding ordinary shares of Prothena. This investment was recorded as an available for sale investment on the Consolidated Balance Sheet at an initial carrying value of \$22.9 million. The fair market value of this investment at December 31, 2012 was \$23.3 million.

Marketable equity securities also include investments in emerging pharmaceutical and biotechnology companies. The fair market value of these securities was \$1.1 million at December 31, 2012 (2011: \$0.3 million).

*Non-current investment securities*

Non-current investment securities of \$8.6 million as of December 31 2012 (2011: \$9.8 million) were comprised of equity investments held in privately held biotech companies recorded at cost, less impairments.

*Net investment losses/(gains) (in millions)*

	2012	2011	2010
Net gains on sale of current investment securities	\$	\$ (0.1)	\$ (4.9)
Derivative fair value gains			(1.2)
Net gains on sale of non-current investment securities		(2.3)	(7.9)
Net investment gains on investment securities		(2.4)	(14.0)
Impairment charges	1.2		
Other		(0.2)	1.2
Net investment (gains)/losses	\$ 1.2	\$ (2.6)	\$ (12.8)

In 2012, we recorded an impairment charge of \$1.2 million (2011: \$Nil; 2010: \$Nil) related to an other-than-temporary impairment of our marketable equity securities.

The framework used for measuring the fair value of our investment securities is described in Note 31.

**18. Inventory**

The inventory balance at December 31, 2012 of \$24.9 million consisted of *Tysabri* finished goods and has been presented as part of the assets held for sale. For information on the assets of the *Tysabri* business that have been presented as held for sale as of December 31, 2012, refer to Note 15.

Product inventories at December 31, 2011 of \$23.8 million also consisted of *Tysabri* finished goods inventory.



## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 19. Prepaid and Other Current Assets

Prepaid and other current assets at December 31 of each year consisted of the following (in millions):

	2012	2011
Prepayments	\$ 10.5	\$ 10.8
Deferred consideration		11.4
Other current assets	2.7	3.5
Total prepaid and other current assets	\$ 13.2	\$ 25.7

The deferred consideration balance at December 31, 2011 related to the present value of deferred non-contingent consideration receivable from Azur (which has since been acquired by Jazz) in respect of the divestment of the Prialt assets and rights in May 2010. During 2012, we received the deferred consideration of \$12.0 million. For additional information on this transaction, refer to Note 6.

## 20. Property, Plant and Equipment

	Land & Buildings	Plant & Equipment (In millions)	Total
Cost:			
At January 1, 2011	\$ 375.9	\$ 319.9	\$ 695.8
Additions	19.4	9.4	28.8
Impairment	(29.8)	(14.6)	(44.4)
Disposals	(283.3)	(250.8)	(534.1)
At December 31, 2011	\$ 82.2	\$ 63.9	\$ 146.1
Additions	2.7	6.0	8.7
Disposals	(3.4)	(13.4)	(16.8)
At December 31, 2012	\$ 81.5	\$ 56.5	\$ 138.0
Accumulated depreciation and impairment:			
At January 1, 2011	\$ (167.2)	\$ (241.1)	\$ (408.3)
Charged in year	(8.6)	(11.3)	(19.9)
Impairment	21.5	12.9	34.4
Disposals	132.6	198.3	330.9
At December 31, 2011	\$ (21.7)	\$ (41.2)	\$ (62.9)
Charged in year	(5.9)	(4.3)	(10.2)
Impairment	(50.1)	(14.2)	(64.3)
Disposals	0.7	11.4	12.1
At December 31, 2012	(77.0)	(48.3)	(125.3)

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Net book value: December 31, 2012	\$ 4.5	\$ 8.2	\$ 12.7
Net book value: December 31, 2011	\$ 60.5	\$ 22.7	\$ 83.2

During 2012, we recorded an asset impairment charge of \$64.3 million within other net charges in the Consolidated Statement of Operations relating to the planned closure of our facilities in South San Francisco following the separation of the Prothena Business and cessation of the remaining early stage research activities. For additional information on this transaction, refer to Note 12.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On September 16, 2011, we announced the completion of the merger between Alkermes, Inc. and EDT. In connection with this transaction, we disposed of land and buildings with a net book value of \$150.7 million and plant and equipment with a net book value of \$51.3 million related to EDT. For additional information on this transaction, refer to Note 12.

During 2011, we recorded an asset impairment charge of \$10.0 million within other net charges in the Consolidated Statement of Operations relating to a consolidation of facilities in South San Francisco and the closure of EDT's King of Prussia, Pennsylvania site.

We had no assets acquired under capital leases as of December 31, 2012 or 2011.

**21. Goodwill and Other Intangible Assets**

	Goodwill	Other Intangible Assets (In millions)	Total
<b>Cost:</b>			
At January 1, 2011	\$ 257.1	\$ 426.0	\$ 683.1
Additions		2.6	2.6
Disposals	(49.7)	(173.0)	(222.7)
Impairment		(0.3)	(0.3)
At December 31, 2011	\$ 207.4	\$ 255.3	\$ 462.7
Additions		1.9	1.9
Disposals	(0.6)	(4.4)	(5.0)
Transferred to assets held for sale	(110.8)	(159.2)	(270.0)
Impairment			
At December 31, 2012	\$ 96.0	\$ 93.6	\$ 189.6
<b>Accumulated amortization:</b>			
At January 1, 2011	\$	\$ (306.6)	\$ (306.6)
Charged in year		(15.9)	(15.9)
Disposals		169.7	169.7
At December 31, 2011	\$	\$ (152.8)	\$ (152.8)
Charged in year		(14.6)	(14.6)
Disposals		3.8	3.8
Transferred to assets held for sale		74.8	74.8
Impairment		(1.8)	(1.8)
At December 31, 2012		(90.6)	(90.6)
Net book value: December 31, 2012	\$ 96.0	\$ 3.0	\$ 99.0
Net book value: December 31, 2011	\$ 207.4	\$ 102.5	\$ 309.9

Other intangible assets consist primarily of computer software as follows (in millions):

	2012	2011
<i>Tysabri</i>	\$	\$ 96.9
Other intangible assets	3.0	5.6
Total other intangible assets	\$ 3.0	\$ 102.5

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The assets of the *Tysabri* business, which have been classified as held for sale as of December 31, 2012, include goodwill that has been allocated to the *Tysabri* business of \$110.8 million and other intangible assets of \$84.4 million. For information on the assets of the *Tysabri* business, which have been classified as held for sale as of December 31, 2012, refer to Note 15.

On December 20, 2012, we completed the separation of the Prothena Business into a new, publicly traded company incorporated in Ireland. In connection with this transaction, we disposed of goodwill of \$0.6 million which was allocated to the Prothena Business. In 2012, we also recorded an impairment charge of \$1.8 million within other net charges in respect of computer software and other intangible assets which will no longer be utilized as a result of separation of the Prothena Business and cessation of the remaining early stage research activities. For additional information on this transaction, refer to Note 28.

On September 16, 2011, we announced the completion of the merger between Alkermes, Inc. and EDT. As part of this transaction, we disposed of patents, licenses, IP and other intangible assets related to EDT with a net book value of \$3.3 million. We also disposed of goodwill of \$49.7 million which was allocated to the EDT business. For additional information on this transaction, refer to Note 5. In 2011, we also recorded an impairment charge of \$0.3 million (2010: \$0.9 million) within other net charges in respect of computer software which will no longer be utilized.

The weighted-average remaining useful life for other intangible assets at December 31, 2012 was 3.0 years (2011: 7.6 years).

Amortization expense for the year ended December 31, 2012 amounted to \$14.6 million (2011: \$15.9 million; 2010: \$28.4 million) and is recorded as cost of sales, selling, general and administrative (SG&A) expenses and R&D expenses in the Consolidated Statements of Operations, as it relates to the respective functions.

As of December 31, 2012, our expected future amortization expense of currently held other intangible assets is as follows (in millions):

Year ending December 31, 2013	\$ 1.3
2014	0.8
2015	0.6
2016	0.2
2017	0.1
2018 and thereafter	
<b>Total</b>	<b>\$ 3.0</b>

**22. Other Assets**

Non-current other assets at December 31 of each year consisted of the following (in millions):

	<b>2012</b>	<b>2011</b>
Deferred financing costs	\$ 11.8	\$ 11.1
Other	6.3	13.4
<b>Total other assets</b>	<b>\$ 18.1</b>	<b>\$ 24.5</b>

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**23. Accrued and Other Current Liabilities, and Other Long-Term Liabilities**

Accrued and other current liabilities at December 31 of each year consisted of the following (in millions):

	2012	2011
Accrued royalties payable	\$ 79.1	\$ 73.3
Lease liabilities	56.4	15.5
Restructuring accruals	27.6	9.7
Accrued rebates	31.8	31.7
Sales and marketing accruals	28.1	23.4
Payroll and related taxes	20.8	32.5
Clinical trial accruals	13.0	15.2
Accrued transaction costs	12.5	
Janssen AI losses in excess of investment	11.0	
Accrued interest	9.3	11.4
Cambridge Collaboration termination	8.0	
Litigation accruals	1.0	0.7
Other accruals	15.5	16.5
 Total accrued and other current liabilities	 \$ 314.1	 \$ 229.9

For further information on the \$11.0 million as of December 31, 2012 (2011: \$Nil) related to Janssen AI losses in excess of investment made, refer to Note 9.

Other long-term liabilities at December 31 of each year consisted of the following (in millions):

	2012	2011
Unfunded pension liability	\$ 39.1	\$ 12.2
Accrued income tax payable	6.1	6.2
Deferred rent	0.6	17.0
Deferred revenue	0.1	0.4
Other	16.4	24.9
 Total other long-term liabilities	 \$ 62.3	 \$ 60.7

The unfunded pension liability at December 31, 2012 and 2011 relates to two defined benefit pension plans. For additional information, refer to Note 29.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Severance, restructuring and other costs accrual*

The following table provides a rollforward of the severance, restructuring and other charges accrual (in millions):

Balance at December 31, 2009	\$ 4.1
Restructuring and other charges	19.4
Reversal of prior year accrual	(0.5)
Cash payments	(9.1)
Non-cash charges	(1.0)
Balance at December 31, 2010	\$ 12.9
Restructuring and other charges	20.4
Reversal of prior year accrual	(1.0)
Cash payments	(21.5)
Non-cash charges	(1.1)
Balance at December 31, 2011	\$ 9.7
Restructuring and other charges	48.7
Reversal of prior year accrual	(2.1)
Reclassification from long term accrual	0.2
Cash payments	(22.9)
Non-cash charges	(6.0)
Balance at December 31, 2012	\$ 27.6

**24. Long-Term Debt**

Long-term debt at December 31, 2012 consisted of the following (in millions):

	Original Maturity	Principal Amount	Original Issue Discount	Carrying Value
6.25% Notes	October 2019	600.0		600.0
Total debt		\$ 600.0	\$	\$ 600.0

Long-term debt at December 31, 2011 consisted of the following (in millions):

	Original Maturity	Principal Amount	Original Issue Discount	Carrying Value
2016 Notes issued October 2009	October 2016	472.1	(4.5)	467.6
2016 Notes issued August 2010	October 2016	152.4	(5.0)	147.4
Total debt		\$ 624.5	\$ (9.5)	\$ 615.0

***6.25% Notes***

In October 2012, we completed the offering and sale of \$600.0 million in aggregate principal amount of the 6.25% Senior Fixed Rate Notes due 2019 (the 6.25% Notes), issued by Elan Finance plc and guaranteed by Elan Corporation, plc and certain of our subsidiaries. Interest is paid in cash semi-annually.



**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At any time, or from time to time, prior to October 15, 2015, we may redeem the 6.25% Notes, in whole but not in part, at a price equal to 100% of their principal amount plus a make whole premium plus accrued and unpaid interest. We may redeem the 6.25% Notes, in whole or in part, beginning on October 15, 2015 at an initial redemption price of 104.688% of their principal amount plus accrued and unpaid interest. In addition, at any time, or from time to time, on or prior to October 15, 2015, we may redeem up to 35% of the 6.25% Notes using the proceeds of certain equity offerings at a redemption price of 106.25% of the principal, plus accrued and unpaid interest. For additional information, refer to Note 37.

***2016 Notes issued October 2009 and August 2010***

In October 2009, we completed the offering and sale of \$625.0 million in aggregate principal amount of the 2016 Notes issued October 2009, issued by Elan Finance plc and guaranteed by Elan Corporation, plc and certain of our subsidiaries. The 2016 Notes issued October 2009 bear interest at a rate of 8.75%. In August 2010, we completed the offering and sale of \$200.0 million in aggregate principal amount of the 2016 Notes issued August 2010, issued by Elan Finance plc and guaranteed by Elan Corporation, plc and certain of our subsidiaries. The 2016 Notes issued August 2010 bear interest at a rate of 8.75%.

On September 16, 2011, we issued an offer (the Asset Sale Offer) to purchase up to \$721.2 million in aggregate principal amount of the Senior Notes consisting of the 2013 Fixed Rate Notes, the 2013 Floating Rate Notes, the 2016 Notes issued October 2009 and the 2016 Notes issued August 2010, in accordance with the terms of the indenture governing these notes, at a purchase price of 100% of the aggregate principal amount thereof, plus accrued and unpaid interest to the date of payment. The Asset Sale Offer expired on October 14, 2011 and holders of \$0.5 million of the 2016 Notes issued October 2009 tendered their notes. On October 20, 2011, we repurchased \$152.4 million and \$47.6 million in aggregate principal amounts of the 2016 Notes issued October 2009 and the 2016 Notes issued August 2010, respectively in a separate private transaction.

In September 2012, we announced a cash tender offer (the Tender Offer) for the outstanding 2016 Notes issued October 2009 and the outstanding 2016 Notes issued August 2010. The total consideration for the Tender Offer was \$1,053.34 per \$1,000 of principal amount, plus accrued and unpaid interest to the date of payment. An additional consent payment of \$40 per \$1,000 principal amount was paid to holders of the 2016 Notes issued October 2009 and the 2016 Notes issued August 2010 who tendered their notes on or before October 5, 2012. The Tender Offer expired on October 22, 2012 and holders of \$439.5 million and the \$141.3 million in aggregate principal amounts of the 2016 Notes issued October 2009 and the 2016 Notes issued August 2010, respectively, tendered their notes. In October 2012, we also announced the election to redeem all of the 2016 Notes issued October 2009 and the 2016 Notes issued August 2010 not purchased in the Tender Offer. Pursuant to this redemption, \$32.6 million and \$11.1 million of the outstanding aggregate principal amounts of the 2016 Notes issued October 2009 and the 2016 Notes issued August 2010, respectively, were redeemed at a redemption price of 108.75% of the aggregate principal amount thereof, plus accrued but unpaid interest thereon to the date of payment.

***Covenants***

The agreement governing our outstanding long-term indebtedness contains various restrictive covenants that limit our financial and operating flexibility. The covenants do not require us to maintain or adhere to any specific financial ratios, however, they do restrict within certain limits our ability to, among other things:

Incur additional debt;

Create liens;

Enter into certain transactions with affiliates, except on an arm's-length basis;

Enter into certain types of investment transactions;

Engage in certain asset sales or sale and leaseback transactions;

Pay dividends; and

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidate, merge with, or sell all or substantially all of its assets to another entity.

The breach of any of these covenants may result in a default under the agreement, which could result in the indebtedness under the agreement becoming immediately due and payable and may result in a default under our other indebtedness subject to cross acceleration provisions.

**25. Share Capital**

Share capital at December 31 of each year consisted of the following:

Authorized Share Capital	No. of Ordinary Shares	
	2012	2011
Ordinary Shares (par value 0.05)	810,000,000	810,000,000
Executive Shares (par value 1.25) (the Executive Shares)	1,000	1,000
B Executive Shares (par value 0.05) (the B Executive Shares)	25,000	25,000

Issued and Fully Paid Share Capital	At December 31, 2012		At December 31, 2011	
	Number	\$000s	Number	\$000s
Ordinary Shares	594,949,536	36,496	589,346,275	36,158
Executive Shares			1,000	2
B Executive Shares			21,375	2

In September 2012, the 1,000 outstanding Executive Shares of 1.25 each and the 21,375 outstanding B Executive Shares of 0.05 each were fully redeemed at par and cancelled.

**26. Additional Paid In Capital**

In accordance with the provisions of Irish Company Law, we took steps to reduce our share capital by cancelling some of our share premium account (which does not constitute distributable reserves under Irish Company Law), with a corresponding reduction in and elimination of our retained loss (accumulated deficit) to create distributable reserves. At our Annual General Meeting on May 24, 2012, the shareholders resolved, subject to the approval of the High Court of Ireland, to reduce the share premium account (APIC) of the Company by cancelling some or all of the Company's share premium account (the final amount to be determined by the Directors). The Directors subsequently resolved to reduce the share premium account of the Company by \$6,199.9 million and use these reserves to offset the accumulated deficit of the Company, with the balance to be treated as retained earnings which shall be available for distribution. On July 19, 2012, the Irish High Court approved the Directors resolution and this order was registered with the Irish Companies Registration Office on July 23, 2012. The reduction in share premium (APIC) and corresponding offset against the accumulated deficit has not been presented in the Company's Consolidated Financial Statements as of and for the year ended December 31, 2012, because a reduction in accumulated deficit mandated through formal court proceeding is not recognized under U.S. GAAP. The distributable reserves of the Parent Company at December 31, 2012 were \$1,757.4 million (2011: \$Nil). In accordance with Irish Company law, the determination of whether the Elan group can make a distribution to shareholders is based on the distributable reserves of the Parent Company and not the consolidated accumulated reserves of the Group.

**27. Accumulated Other Comprehensive Loss**

Accumulated OCI net of \$Nil taxes at December 31 of each year consisted of the following (in millions):

	2012	2011
Net unrealized gains on investment securities	\$ 17.5	\$
Currency translation adjustments	(0.1)	(0.1)
Unamortized net actuarial loss on pension plans	(61.8)	(37.0)

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Unamortized prior service cost on pension plans	(0.2)	(0.3)
Accumulated other comprehensive loss	\$ (44.6)	\$ (37.4)

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**28. Separation and Distribution of Prothena Business**

On December 20, 2012, we transferred a substantial portion of our drug discovery business platform into a new, publicly traded company incorporated in Ireland. The issued share capital of Prothena was admitted to trading on the NASDAQ Global Market on December 21, 2012. Prothena focuses on the discovery and development of novel antibodies for the potential treatment of a broad range of diseases that involve protein misfolding or cell adhesion. The separation of the Prothena Business from Elan was completed through a demerger under Irish law. The demerger was effected by Elan transferring our wholly-owned subsidiaries comprising the Prothena Business to Prothena, in exchange for Prothena issuing Prothena ordinary shares directly to Elan shareholders, on a pro rata basis. Prothena's issuance of its outstanding shares constituted a deemed in specie distribution by Elan to Elan shareholders. Each Elan shareholder received one Prothena ordinary share for every 41 Elan ordinary shares or Elan ADSs held.

Immediately following the separation of the Prothena Business, a wholly owned subsidiary of Elan subscribed for 3.2 million newly-issued ordinary shares of Prothena, representing 18% of the outstanding ordinary shares of Prothena. We do not have the ability to exercise significant influence over Prothena so this investment has been recorded as an available-for-sale investment on the Consolidated Balance Sheet at an initial fair value of \$22.9 million. See Note 17 for further details of this investment.

The total value of the Prothena in specie distribution amounted to \$105.7 million, and was calculated as follows (in millions):

Cash and cash equivalents	\$ 125.0
Net assets	3.2
<b>Total assets transferred</b>	<b>128.2</b>
Fair value of operating lease guarantee	0.4
Less: Initial carrying value of available for sale interest in Prothena	(22.9)
<b>Total value of the Prothena distribution</b>	<b>\$ 105.7</b>

Prothena's historical results of operations have been presented as a discontinued operation in the Consolidated Statements of Operations. See Note 12 for further details of the results of discontinued operations.

***Lease Guarantee***

In connection with the separation of the Prothena Business, we assigned the leases for the facilities at 650 Gateway Boulevard in South San Francisco to Prothena, which were previously used by the Prothena Business. In accordance with the terms of the lease assignment agreement, Prothena agreed to assume all of the rights, obligations and duties as the lessor of the facilities. However, should Prothena default under its lease obligations, Elan would be held liable by the landlord, and thus, Elan have in substance guaranteed the obligations under the lease agreements for the 650 Gateway facilities. As of December 31, 2012, the total lease payments for the duration of the guarantee, which runs through November 2020, are approximately \$10.8 million. Elan recorded a liability of \$0.4 million on the Consolidated Balance Sheet as of December 31, 2012 related to the estimated fair value of this guarantee. The fair value of this lease guarantee was included as part of the distribution in specie by Elan.

**29. Pension and Other Employee Benefit Plans*****Pension***

We fund the pensions of certain employees based in Ireland through two defined benefit plans. These plans were closed to new entrants from March 31, 2009, and a defined contribution plan was established for employees in Ireland hired after this date.

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In general, on retirement, eligible employees in the staff scheme are entitled to a pension calculated at 1/60th (1/52nd for the executive scheme) of their final salary for each year of service, subject to a maximum of 40 years. These plans are managed externally and the related pension costs and liabilities are assessed in accordance with the advice of a qualified professional actuary. The investments of the plans at December 31, 2012 consisted of units held in independently administered funds.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The change in projected benefit obligation at December 31 of each year consisted of the following (in millions):

	2012	2011
Projected benefit obligation at January 1	\$ 99.7	\$ 97.3
Service cost	1.1	3.4
Interest cost	4.3	4.6
Plan participants' contributions	0.3	1.5
Actuarial loss	33.5	6.7
Benefits paid and other disbursements	(1.3)	(1.6)
Curtailment gain		(8.8)
Foreign currency exchange rate changes	2.8	(3.4)
Projected benefit obligation at December 31	\$ 140.4	\$ 99.7

The changes in plan assets at December 31 of each year consisted of the following (in millions):

	2012	2011
Fair value of plan assets at beginning of year	\$ 87.5	\$ 77.4
Actual (loss)/gain on plan assets	11.4	(2.7)
Employer contribution	1.4	16.2
Plan participants' contributions	0.3	1.5
Benefits paid and other disbursements	(1.3)	(1.6)
Foreign currency exchange rate changes	2.0	(3.3)
Fair value of plan assets at end of year	\$ 101.3	\$ 87.5
Unfunded status at end of year	\$ (39.1)	\$ (12.2)
Unamortized net actuarial loss in accumulated OCI	61.8	37.0
Unamortized prior service cost in accumulated OCI	0.2	0.3
Net amount recognized	\$ 22.9	\$ 25.1

Amounts recognized in the Consolidated Balance Sheet at December 31 of each year consisted of the following (in millions):

	2012	2011
Unfunded status - non-current liability	\$ (39.1)	\$ (12.2)
Accumulated OCI	62.0	37.3
Net amount recognized	\$ 22.9	\$ 25.1

Net periodic pension cost for the years ended December 31 of each year consisted of the following (in millions):

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	<b>2012</b>	<b>2011</b>	<b>2010</b>
Service cost	\$ 1.1	\$ 3.4	\$ 3.2
Interest cost	4.3	4.6	4.2
Expected return on plan assets	(4.3)	(5.0)	(4.9)
Amortization of net actuarial loss	1.6	1.4	1.2
Amortization of prior service cost		0.2	
Net periodic pension cost	\$ 2.7	\$ 4.6	\$ 3.7



## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The divestment of the EDT business on September 16, 2011 resulted in the cessation of the pension accrual for the EDT active members of the plans. This resulted in a reduction in the actuarial present value of the projected benefit obligation and a resultant curtailment gain as the link to future pensionable salary increases was broken for these active members. The curtailment gain of \$8.8 million was recorded against the unamortized net actuarial loss in OCI.

The weighted-average assumptions used to determine net periodic pension cost and benefit obligation at December 31 of each year were:

	2012	2011
Discount rate	3.3%	4.3%
Expected return on plan assets	4.3%	5.5%
Rate of compensation increase	3.4%	3.4%

The discount rate of 3.3% at December 31, 2012, was determined by reference to yields on high-quality fixed-income investments, having regard to the duration of the plans' liabilities. The average duration of both defined benefit plans is greater than 20 years. Since no significant market exists for high-quality fixed income investments in Ireland and, following the crisis in the credit markets, the number of AA-rated corporate bonds with long durations is limited, the assumed discount rate of 3.3% per annum at December 31, 2012, was determined based on a yield curve derived by reference to government bonds with an added corporate bond spread derived from the Merrill Lynch 10+ AA corporate bond index.

In Ireland, post-retirement mortality rates are calculated using 62% of the mortality rates of the PNML00 mortality tables for males and 70% of the mortality rates of the PNFL00 mortality tables for females. To make an allowance for expected future increases in average life expectancy, plan benefit obligations for each plan member are increased by 0.39% per annum to retirement age. This approach to post-retirement mortality is used in the standard transfer value basis set out in Actuarial Standard of Practice ASP Pen-2, issued by the Society of Actuaries in Ireland.

The average life expectancy in years of a current pensioner retiring at the age of 65:

	2012	2011
Females	23.5	23.4
Males	21.8	21.7

The average life expectancy in years of a pensioner retiring at the age of 65 in 10 years:

	2012	2011
Females	24.5	24.4
Males	22.7	22.6

The average life expectancy in years of a pensioner retiring at the age of 65 in 20 years:

	2012	2011
Females	25.4	25.3
Males	23.6	23.5

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2012, the impact of certain changes in the principal assumptions on the projected benefit obligation, service cost and net periodic pension cost is as follows (in millions):

	Increase/(decrease) in Projected Benefit Obligation	Increase/(decrease) in Service Cost	Increase/(decrease) in Net Periodic Pension Cost
Increase of 0.25% in discount rate	\$ (9.8)	\$ (0.2)	\$ (0.8)
Decrease of 0.25% in discount rate	10.6	0.2	0.8
Increase of 0.25% in salary and inflation rates	10.2	0.2	1.1
Decrease of 0.25% in salary and inflation rates	(9.4)	(0.2)	(1.1)
Increase of one year in life expectancy	4.5	0.1	0.5
Decrease of one year in life expectancy	(4.5)	(0.1)	(0.5)
Increase of 0.25% in pension increase assumption	4.6	0.1	0.5
Decrease of 0.25% in pension increase assumption	(3.8)	(0.1)	(0.5)

The weighted-average asset allocations at December 31 of each year by asset category consisted of the following:

	2012	2011
Equities	48.1%	47.1%
Bonds	19.4%	18.5%
Property	0.6%	0.7%
Cash	11.4%	13.3%
Absolute return fund	20.5%	20.4%
Total	100.0%	100.0%

The investment mix of the pension plans' assets is biased towards equities, with a diversified domestic and international portfolio of shares listed and traded on recognized exchanges.

The long-term asset allocation ranges of the trusts are as follows:

Equities	60%-80%
Bonds	10%-40%
Property	0%-10%
Other	0%-10%

A portion of the assets are allocated to low-risk investments, which are expected to move in a manner consistent with that of the liabilities. The balances of the assets are allocated to performance-seeking investments designed to provide returns in excess of the growth in liabilities over the long term. The key risks relating to the plan assets are as follows:

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Interest rate risk the risk that changes in interest rates result in a change in value of the liabilities not reflected in the changes in the asset values. This risk is managed by allocating a portion of the trusts assets to assets that are expected to behave in a manner similar to the liabilities.

Inflation risk the risk that the inflation-linked liabilities of salary growth and pension increases increase at a faster rate than the assets held. This risk is managed by allocating a portion of the plans to investments with returns that are expected to exceed inflation.

Market risk the risk that the return from assets is not sufficient to meet liabilities. This risk is managed by monitoring the performance of the assets and requesting regular valuations of the liabilities. A professionally qualified actuary performs regular valuations of the plans and the progress of the assets is examined against the plans funding target. Further, the assets of the plans are invested in a range of asset classes in order to limit exposure to any particular asset class or security.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Manager risk** – the risk that the chosen manager does not meet its investment objectives, or deviates from its intended risk profile. This risk is managed by regularly monitoring the managers responsible for the investment of the assets relative to the agreed objectives and risk profile.

**Cash flow risk** – the risk that the cash flow needs of the plan requires a disinvestment of assets at an inopportune time. As part of the asset allocation strategy, the proportion of assets held by the plans in liability matching assets will explicitly consider the cash flows expected to arise in the near term.

As of December 31, 2012, the expected long-term rate of return on assets of 4.3% (2011: 5.5%) was calculated based on the assumptions of the following returns for each asset class:

	2012	2011
Equities	6.5%	7.0%
Property	5.5%	6.0%
Bonds	3.0%	3.5%
Cash	2.0%	2.0%
Absolute return fund	4.5%	6.0%

As of December 31, 2012, the assumed return on equities has been derived as the assumed return on bonds plus an assumed equity risk premium of 3.5% (2011: 3.5%).

As of December 31, 2012, the expected return on property has been chosen by allowing for a property risk premium of 2.5% (2011: 2.5%) above the expected return on bonds.

The expected government bond returns are set equal to the yield on the government bonds of appropriate duration as at the date of measurement.

The investment in an absolute return fund aims to provide an absolute return with a lower volatility than the target returns.

The following table sets forth the fair value of our pension plan assets, as of December 31, 2012 (in millions):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Equities	\$ 48.7	\$	\$	\$ 48.7
Bonds	19.7			19.7
Property			0.6	0.6
Cash	11.5			11.5
Absolute return fund	20.8			20.8
Total	\$ 100.7	\$	\$ 0.6	\$ 101.3

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth a summary of the changes in the fair value of our Level 3 pension plan assets, which were measured at fair value on a recurring basis for the year ended December 31, 2012 (in millions).

	<b>Total</b>
Beginning balance at January 1, 2012	\$ 0.6
Unrealized loss on property assets	
Ending balance at December 31, 2012	\$ 0.6

All properties in the fund are valued by independent valuers in accordance with the Royal Institute of Chartered Surveyors Valuation Standards by forecasting the returns of the market at regular intervals. These forecasts have regard to the output from a proprietary quantitative model, the inputs to which include gross national product growth, interest rates and inflation.

The total accumulated benefit obligation for the defined benefit pension plans was \$136.3 million at December 31, 2012 (2011: \$95.0 million).

At December 31, 2012, the total estimated future benefit payments to be paid in respect of the plans for the period of 2013-2017 is approximately \$2.0 million per annum. The total estimated future benefit payments to be paid in the period of 2018-2022 is approximately \$5.1 million per annum.

The expected benefits to be paid are based on the same assumptions used to measure our benefit obligation at December 31, 2012, including the expected future employee service.

As of December 31, 2012, we expect to recognize \$3.0 million of the unamortized net actuarial loss that is included in accumulated OCI at December 31, 2012, during 2013.

In January 2013, the Company ceased the future accrual of benefits to the active members of the defined benefit pension plans. Active members became deferred members of the defined benefit plans on January 31, 2013 and became members of the Irish defined contribution plan on February 1, 2013. In connection with the cessation of the future accrual of benefits, we made a lump sum contribution to the defined benefit plans of \$19.8 million. We expect to contribute approximately \$22.0 million to our defined benefit plans in 2013, including the lump sum contribution of \$19.8 million.

#### ***Defined Contribution Retirement Plans***

We operate a number of defined contribution retirement plans. The costs of these plans are charged to the Consolidated Statement of Operations in the period they are incurred. For 2012, total expense related to the defined contribution plans was \$2.2 million (2011: \$3.6 million; 2010: \$4.5 million).

#### ***Employee Savings and Retirement Plan 401(k)***

We maintain a 401(k) retirement savings plan for our employees based in the United States. Participants in the 401(k) plan may contribute up to 80% of their annual compensation, limited by the maximum amount allowed by the IRC. We match 3% of each participating employee's annual compensation on a quarterly basis and may contribute additional discretionary matching up to another 3% of the employee's annual qualified compensation. Our matching contributions vest immediately. For 2012, we recorded \$1.9 million (2011: \$3.2 million; 2010: \$4.0 million) of expense in connection with the matching contributions under the 401(k) plan.

#### ***Irish Defined Contribution Plan***

We operate a defined contribution plan for employees based in Ireland. Under the plan, we contribute up to 18% of each participating employee's annual eligible income on a monthly basis. For 2012, we recorded \$0.3 million (2011: \$0.4 million; 2010: \$0.5 million) of expense in connection

with the matching contributions under the Irish defined contribution plans.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**30. Share-based Compensation**

We currently grant equity awards from the Long Term Incentive Plan (2006 LTIP), which provides for the issuance of stock options, RSUs and other equity awards. Our equity award program is a long-term retention program that is intended to attract, retain and motivate employees, directors and consultants of Elan and our affiliates, and to align the interests of these parties with those of shareholders. We consider our equity award program critical to our operation and productivity. Equity awards are settled through the issuance of new shares. As of December 31, 2012, there were 1,292,215 shares available for issuance under the 2006 LTIP (2011: 6,082,810 shares).

In May 2012, our shareholders approved the Elan Corporation, plc 2012 Long Term Incentive Plan (2012 LTIP), which provides for the grant of equity up to 30,000,000 Ordinary Shares. As of December 31, 2012, 30,000,000 shares were available for future issuance under the 2012 LTIP.

Elan stock options and RSUs outstanding amounts at close of business on December 20, 2012 were subject to an adjustment in connection with the separation and distribution of the Prothena Business. In line with the terms of our employee equity plans (2006 LTIP, 1996 LTIP and 1999 Stock Option Plan) the total number of RSUs outstanding on that day was increased by 3.24165%, the number of options outstanding was also increased and the corresponding exercise prices decreased to reflect the changes in the Company's share price across the transaction date.

**Stock Options**

Stock options are granted at the price equal to the market value at the date of grant and will expire on a date not later than 10 years after their grant. Options generally vest between one and three years from the grant date.

Options outstanding at December 31 of each year consisted of the following (in thousands):

	2012	2011
1996 Plan	2,629	3,663
1998 Plan		123
1999 Plan	1,489	3,364
2006 LTIP	14,079	12,301
<b>Total</b>	<b>18,197</b>	<b>19,451</b>

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The total employee and non-employee stock options outstanding, vested and expected to vest, and exercisable are summarized as follows:

	No. of Options (In thousands)	WAEP <sup>(1)</sup>	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In millions)
Outstanding at December 31, 2010	18,208	\$ 13.14		
Exercised	(713)	6.22		
Granted	4,241	7.62		
Forfeited	(489)	8.84		
Expired	(1,796)	32.01		
Outstanding at December 31, 2011	19,451	\$ 10.55		
Exercised	(3,278)	5.65		
Granted	5,182	12.23		
Forfeited	(1,023)	11.24		
Expired	(2,135)	17.82		
Outstanding at December 31, 2012	18,197	\$ 10.77	6.2	\$ 29.0
Vested and expected to vest at December 31, 2012	17,399	\$ 10.76	6.1	\$ 28.1
Exercisable at December 31, 2012	12,522	\$ 11.06	5.0	\$ 21.6

<sup>(1)</sup> *Weighted-average exercise price*

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between our closing stock price on the last trading day of 2012 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2012. This amount changes based on the fair market value of our stock. The total intrinsic value of options exercised in 2012 was \$21.0 million (2011: \$2.9 million; 2010: \$0.7 million). The total fair value expensed over the vesting terms of options that vested in 2012 was \$11.0 million (2011: \$21.6 million; 2010: \$13.4 million).

At December 31, 2012, the range of exercise prices and weighted-average remaining contractual life of outstanding and exercisable options were as follows:

	Options Outstanding			Options Exercisable		
	Options Outstanding (In thousands)	Weighted- Average Remaining Contractual Life (In years)	WAEP	Options Outstanding (In thousands)	Weighted- Average Remaining Contractual Life (In years)	WAEP
\$2.70-\$10.00	8,707	6.3	\$ 6.89	6,298	5.6	\$ 6.78
\$10.01-\$24.98	9,203	6.2	13.98	5,937	4.5	14.90
\$24.99-\$34.68	287	3.1	25.72	287	3.1	25.72



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\$2.70-\$34.68	18,197	6.2	\$ 10.77	12,522	5.0	\$ 11.06
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Equity-settled share-based payments made to employees have been recognized in the financial statements based on the fair value of the awards measured at the date of grant. We use the graded-vesting attribution method for recognizing share-based compensation expense over the requisite service period for each separately vesting tranche of award as though the awards were, in substance, multiple awards.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity-settled share-based payments made to non-employees have been recognized in the financial statements based on the fair value of the awards on the vest date; which is the date at which the commitment for performance by the non-employees to earn the awards is reached and also the date at which the non-employees' performance is complete.

The fair value of stock options is calculated using a binomial option-pricing model and the fair value of options issued under our EEPP is calculated using the Black-Scholes option-pricing model, taking into account the relevant terms and conditions. The binomial option-pricing model is used to estimate the fair value of our stock options because it better reflects the possibility of exercise before the end of the options' life. The binomial option-pricing model also integrates possible variations in model inputs, such as risk-free interest rates and other inputs, which may change over the life of the options. Options issued under our EEPP have relatively short contractual lives, or must be exercised within a short period of time after the vesting date, and the input factors identified above do not apply. Therefore, the Black-Scholes option-pricing model produces a fair value that is substantially the same as a more complex binomial option-pricing model for our EEPP. The amount recognized as an expense is adjusted each period to reflect actual and estimated future levels of vesting.

We use the implied volatility for traded options on our stock with remaining maturities of at least one year to determine the expected volatility assumption required in the binomial model. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our stock option awards. The dividend yield assumption is based on the history and expectation of dividend payouts.

As share-based compensation expense recognized in the Consolidated Statement of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from estimates. Forfeitures were estimated based on historical experience and our estimate of future turnover.

The estimated weighted-average grant date fair values of the individual options granted during the years ended December 31, 2012, 2011 and 2010 were \$6.24, \$3.53 and \$3.73, respectively. The fair value of options granted during these years was estimated using the binomial option-pricing model with the following weighted-average assumptions:

	2012	2011	2010
Risk-free interest rate	0.86%	1.56%	2.04%
Expected volatility	59.2%	52.4%	65.4%
Expected dividend yield			
Expected life <sup>(1)</sup>			

<sup>(1)</sup> The expected lives of options granted in 2012, as derived from the output of the binomial model, ranged from 4.9 years to 6.8 years (2011: 4.8 years to 7.5 years; 2010: 4.8 years to 7.5 years). The contractual life of the options, which is not later than 10 years from the date of grant, is used as an input into the binomial model.

**Restricted Stock Units**

RSUs generally vest between one and three years from the grant date, and shares are issued to RSU holders as soon as practicable following vesting. The fair value of services received in return for the RSUs is measured by reference to the fair value of the underlying shares at grant date, for directors and employees, and as services are rendered for non-employees. The total fair value expensed over the vesting terms of RSUs that vested in 2012 was \$19.0 million (2011: \$28.8 million; 2010: \$10.8 million).

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The non-vested RSUs are summarized as follows:

	No. of RSUs (In thousands)	Weighted- Average Grant Date Fair Value
Non-vested at December 31, 2010	4,642	\$ 9.38
Granted	3,312	6.82
Vested	(3,052)	9.47
Forfeited	(1,000)	7.45
Non-vested at December 31, 2011	3,902	\$ 7.63
Granted	2,303	13.00
Vested	(2,145)	8.91
Forfeited	(695)	10.24
Non-vested at December 31, 2012	3,365	\$ 9.95

**Employee Equity Purchase Plan**

During 2012, we operated an EEPP for eligible employees based in the United States and, from January 1, 2012 for eligible employees based in Ireland. The EEPP for U.S. based employees is a qualified plan under Sections 421 and 423 of the IRC. The EEPP allows eligible employees to purchase shares at 85% of the lower of the fair market value at the beginning of the offering period or the fair market value on the last trading day of the offering period. Purchases were limited to \$25,000 (fair market value) per calendar year; 2,000 shares per six-month offering period and, for U.S. based employees, subject to certain IRC restrictions.

In May 2012, our shareholders approved the Elan Corporation, plc Employee Equity Purchase Plan (2012 Restatement), which provides for an additional 1,500,000 Ordinary Shares to be issued under the EEPP. In total, 4,500,000 shares have been made available for issuance under the EEPP. In 2012, 146,357 shares (2011: 237,631 shares; 2010: 470,412 shares) were issued under the EEPP. As of December 31, 2012, 1,497,404 shares (2011: 143,761 shares) were available for future issuance under the EEPP.

The weighted-average fair value of options granted under the EEPP during the 12 months ended December 31, 2012 was \$4.46 (2011: \$2.30; 2010: \$1.84). The estimated fair values of these options were charged to expense over the respective six-month offering periods. The estimated fair values of options granted under the EEPP in the years ended December 31, were calculated using the following inputs into the Black-Scholes option-pricing model:

	2012	2011	2010
Weighted-average share price	\$ 13.97	\$ 8.00	\$ 5.61
Weighted-average exercise price	\$ 11.88	\$ 6.80	\$ 4.77
Expected volatility <sup>(1)</sup>	60.5%	49.7%	63.9%
Expected life	6 months	6 months	6 months
Expected dividend yield			
Risk-free interest rate	0.09%	0.16%	0.21%

<sup>(1)</sup> The expected volatility was determined based on the implied volatility of traded options on our stock.

**Share-based Compensation Expense**

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As part of the Johnson & Johnson transaction in September 2009, we grant annual equity and equity-based compensation awards under the 2006 LTIP (and any successor or replacement or additional plan) to each transferred employee, once they remain as an employee of Janssen AI. Beginning in 2010, these awards are granted at the same time as such awards are granted to Elan employees;

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

on terms and conditions, including vesting, that are no less favorable than those granted to similarly situated Elan employees; and with a grant date fair value that is equal to similarly situated Elan employees who received the same performance rating from Elan as the transferred employees received from Janssen AI. The total amount of expense in 2012 relating to equity-settled share-based awards held by former Elan employees that transferred to Janssen AI was \$1.5 million (2011: \$2.4 million; 2010: \$0.4 million). This expense has been recognized in the R&D expense line item in the Consolidated Statement of Operations.

In connection with the separation and distribution of the Prothena Business on December 20, 2012, our Leadership Development and Compensation Committee made adjustments to awards made under the Elan equity incentive plans as a result of the market value of Elan ordinary shares and Elan ADSs immediately prior to the separation and distribution being higher than the market value of Elan ordinary shares and Elan ADSs immediately after the separation and distribution. All such adjustments were applied equally to all outstanding Elan awards (including, options to purchase Elan ordinary shares or Elan ADSs held by employees of Elan who become employees of Prothena, that had vested prior to December 20, 2012, or vested upon the separation and distribution) and were in accordance with the terms of the applicable Elan equity incentive plan. These adjustments did not, and will not, have an impact on the financial statements, as there were no differences between the fair values of the adjusted awards immediately before and immediately after they were modified.

The total net expense of \$45.9 million (2011: \$35.3 million; 2010: \$31.5 million) relating to equity-settled share-based compensation has been recognized in the following line items in the Consolidated Statement of Operations at December 31 of each year (in millions):

	2012	2011	2010
<b>Continuing Operations:</b>			
Cost of sales	\$	\$	\$
Selling, general and administrative expenses	21.2	12.7	12.2
Research and development expenses	8.1	8.9	6.4
Other net charges	6.0	0.6	1.0
Share based compensation expense continuing operations	35.3	22.2	19.6
<b>Discontinued Operations:</b>			
Cost of sales	0.2	1.1	1.6
Selling, general and administrative expenses	1.7	3.9	5.1
Research and development expenses	7.9	6.0	5.2
Other net charges		0.5	
Net (loss)/gain on divestment of business	0.8	1.6	
Share based compensation expense discontinued operations	10.6	13.1	11.9
Total	\$ 45.9	\$ 35.3	\$ 31.5

Share-based compensation arose under the following awards at December 31 of each year (in millions):

	2012	2011	2010
Stock options	\$ 22.6	\$ 14.0	\$ 13.4
RSUs	22.7	20.7	17.2
EEPP	0.6	0.6	0.9
Total	\$ 45.9	\$ 35.3	\$ 31.5

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The total equity-settled share-based compensation expense related to unvested awards not yet recognized, adjusted for estimated forfeitures, is \$12.6 million at December 31, 2012. This expense is expected to be recognized over a weighted-average of 1.2 years.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 31. Fair Value Measurements

*Assets Measured at Fair Value on a Recurring Basis*

As of December 31, 2012, with the exception of \$0.3 million (2011: \$Nil) of foreign exchange forward contract derivative liabilities, we did not hold any financial liabilities that are recognized at fair value in the financial statements on a recurring or non-recurring basis. The derivative liability of \$0.3 million is measured using quoted prices in active markets. The following tables set forth the fair value of our financial assets measured at fair value on a recurring basis, as of December 31, of each year (in millions):

## 2012

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 431.3	\$	\$	\$ 431.3
Restricted cash and cash equivalents current	2.6			2.6
Restricted cash and cash equivalents non-current	13.7			13.7
Available-for-sale equity securities current	167.9			167.9
Total	\$ 615.5	\$	\$	\$ 615.5

## 2011

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 271.7	\$	\$	\$ 271.7
Restricted cash current	2.6			2.6
Restricted cash non-current	13.7			13.7
Available-for-sale equity securities current	0.3			0.3
Total	\$ 288.3	\$	\$	\$ 288.3

As of December 31, 2012, the fair value of our Level 1 assets was \$615.5 million (2011: \$288.3 million), primarily consisting of bank deposits, holdings in U.S. Treasuries funds, restricted cash, and marketable equity securities in Alkermes plc, Prothena and emerging pharmaceutical and biotechnology companies. Included in this amount were net unrealized gains of \$17.5 million (2011: \$Nil) related to marketable equity securities.

As of December 31, 2012, we held \$Nil (2011: \$Nil) investments, which were measured using unobservable (Level 3) inputs.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth a summary of the changes in the fair value of our Level 3 financial assets, which were measured at fair value on a recurring basis, during 2011 (in millions):

## 2011

	Auction Rate Securities
Beginning balance at January 1, 2011	\$ 0.2
Realized gains included in net investment gains	
Unrealized losses included in other comprehensive income	
Disposals	(0.2)
Ending balance at December 31, 2011	\$

We disposed of the Auction Rate Securities (ARS) during 2011. Prior to disposal, ARS were valued by a third-party valuation firm, which primarily used a discounted cash flow model (expected cash flows of the ARS were discounted using a yield that incorporates compensation for illiquidity) in combination with a market comparables method, where the ARS were valued based on indications (from the secondary market) of what discounts buyers demand when purchasing similar collateral debt obligations. The secondary market indications were given less weight in this approach due to the lack of data on trades in securities that are substantially similar to the ARS.

*Assets Measured at Fair Value on a Non-recurring Basis*

We measure certain assets, including equity investments in privately held companies, at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. We did not recognize any impairment charges relating to these assets during 2012 (2011: \$Nil).

*Debt Instruments*

Principal amounts and fair values (based on unadjusted quoted prices (Level1)) of our debt instruments at December 31 consisted of the following (in millions):

	2012		2011	
	Principal Amount	Fair Value	Principal Amount	Fair Value
6.25% Notes	\$ 600.0	\$ 628.1	\$	\$
2016 Notes issued October 2009			472.1	503.4
2016 Notes issued August 2010			152.4	161.7
Total debt instruments	\$ 600.0	\$ 628.1	\$ 624.5	\$ 665.1

Refer to Note 24 for a reconciliation of the aggregate principal amount of the debt to the carrying amount.

**32. Leases***Operating Leases*



We lease certain of our facilities under non-cancelable operating lease agreements that expire at various dates through 2020. The major components of our operating leases that were in effect at December 31, 2012 are as described below.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We have lease agreements for 260,000 square feet of space in South San Francisco which has been utilized for R&D, administration and other corporate functions. The lease term for 55,000 square feet of this space expires in November 2014, with the lease term for the remainder of the leased space expiring between March 2019 and January 2020, with an option to renew for one additional five-year period. We have sub-leased 55,000 square feet of this space which was no longer being utilized by R&D, sales and administrative functions to Janssen AI. As a result of the planned closure of our facilities in South San Francisco in early 2013, following the separation of the Prothena Business and cessation of the remaining early stage research activities, we will no longer utilize the remaining 205,000 square feet of space in South San Francisco.

We also leased approximately 26,000 square feet of space in South San Francisco which was utilized for our Prothena R&D function. As part of the separation of the Prothena Business, we assigned this lease to Prothena. We agreed to indemnify the landlord for all matters related to the leases through the expiry of the lease in 2020. For further information on the fair value of this operating lease guarantee, refer to Note 31.

We have lease agreements for 41,000 square feet of space for our corporate headquarters located in the Treasury Building, Dublin, Ireland. This lease expires in July 2014, with an option to renew for two additional 10-year periods. We have sub-leased a portion of this space that we no longer utilize to Janssen AI. This sub-lease expires in July 2014.

We closed the New York office in March 2009 and have entered into sub-lease agreements for this space. The lease period expires in February 2015.

During 2012, we entered into a lease agreement for 11,830 square feet of space in Cambridge, Massachusetts which is being utilized by our R&D, sales and administrative functions. The lease period expires in 2017.

In December 2011, we closed the 113,000 square feet EDT facility located in King of Prussia, Pennsylvania. The two leases expire between April 2019 and May 2020. The future rental commitments relating to the leases are included in the table below. Approximately 50,000 square feet of this space was sublet by December 2012.

In addition, we also have various operating leases for equipment and vehicles, with lease terms that range from three to five years.

We recorded expense under operating leases of \$19.2 million in 2012 (2011: \$23.8 million; 2010: \$27.9 million). We recorded income under our operating subleasing agreement of \$2.8 million in 2012 (2011: \$2.8 million; 2010: \$2.3 million).

As of December 31, 2012, our future minimum rental commitments for operating leases with non-cancelable terms in excess of one year are as follows (in millions):

Due in:	
2013	\$ 21.3
2014	20.4
2015	14.1
2016	14.4
2017	14.6
2018 and thereafter	24.4
Total	\$ 109.2 <sup>(1)</sup>

<sup>(1)</sup> The future minimum rental commitments include the commitments in respect of lease contracts where the future lease commitments exceeds the future expected economic benefit that we expect to derive from the leased asset which has resulted in the recognition of an onerous lease accrual.

The total amount of future minimum sublease payments expected to be received at December 31, 2012 is \$10.4 million (2011: \$6.4 million).



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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Capital Leases***

There were no capital leases in place at December 31, 2012 or 2011. In 2010, the net book value of assets acquired under capital leases was \$1.5 million, which included \$71.8 million of accumulated depreciation. The depreciation expense related to assets under capital leases for 2011 and 2010 was \$0.3 million and \$1.4 million respectively.

In prior years, we disposed of plant and equipment and subsequently leased them back and also entered into an arrangement with a third-party bank, the substance of which allows us a legal right to require a net settlement of our obligations under the leases. The cash and borrowings relating to the previous sale and leaseback transactions were offset in the 2010 Consolidated Financial Statements in the amount of \$31.2 million. These arrangements were terminated during 2011. We incurred a charge of \$0.1 million in the termination of the leases.

**33. Commitments and Contingencies**

As of December 31, 2012, the directors had authorized capital commitments for the purchase of property, plant and equipment of \$0.1 million (2011: \$3.0 million).

At December 31, 2012, we had commitments to invest \$2.0 million (2011: \$2.6 million) in healthcare managed funds.

For information on lease commitments, refer to Note 32. For information on our contingent commitments as a result of our in-substance guarantee over Prothena's commitments under its lease of the facilities at 650 Gateway Boulevard in South San Francisco, refer to Note 28. For litigation and administrative proceedings related to contingencies, refer to Note 34. For information on commitments in relation to our collaboration arrangements, where applicable, refer to Note 36.

**34. Litigation**

We are involved in legal and administrative proceedings that could have a material adverse effect on us.

***Zonegran matter***

In January 2006, we received a subpoena from the U.S. Department of Justice and the Department of Health and Human Services, Office of Inspector General, asking for documents and materials primarily related to our marketing practices for Zonegran, an antiepileptic prescription medicine that we divested to Eisai Inc. in April 2004.

In December 2010, we finalized our agreement with the U.S. Attorney's Office for the District of Massachusetts to resolve all aspects of the U.S. Department of Justice's investigation of sales and marketing practices for Zonegran. In addition, we pleaded guilty to a misdemeanor violation of the Federal Food, Drug, and Cosmetic (FD&C) Act and entered into a Corporate Integrity Agreement with the Office of Inspector General of the Department of Health and Human Services to promote our compliance with the requirements of U.S. federal healthcare programs and the Food and Drug Administration (FDA). If we materially fail to comply with the requirements of U.S. federal healthcare programs or the FDA, or otherwise materially breach the terms of the Corporate Integrity Agreement, such as by a material breach of the compliance program or reporting obligations of the Corporate Integrity Agreement, severe sanctions could be imposed upon us.

In March 2011, we paid \$203.5 million pursuant to the terms of a global settlement resolving all U.S. federal and related state Medicaid claims. During 2010, we recorded a \$206.3 million charge for the settlement, interest and related costs.

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

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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Securities matters***

In March 2005, we received a letter from the U.S. Securities and Exchange Commission (SEC) stating that the SEC's Division of Enforcement was conducting an informal inquiry into actions and securities trading relating to *Tysabri* events. The SEC's inquiry primarily relates to events surrounding the February 28, 2005 announcement of the decision to voluntarily suspend the marketing and clinical dosing of *Tysabri*. We have provided materials to the SEC in connection with the inquiry but have not received any additional requests for information or interviews relating to the inquiry.

The SEC notified us in January 2009 that the SEC was conducting an informal inquiry primarily relating to the July 31, 2008 announcement concerning the initial two *Tysabri*-related progressive multifocal leukoencephalopathy (PML) cases that occurred subsequent to the resumption of marketing *Tysabri* in 2006. We have provided the SEC with materials in connection with the inquiry.

On September 24, 2009, we received a subpoena from the SEC's New York Regional Office requesting records relating to an investigation captioned In the Matter of Elan Corporation, plc. The subpoena requested records and information relating to the July 31, 2008 announcement of the two *Tysabri*-related PML cases as well as records and information relating to the July 29, 2008 announcement at the International Conference of Alzheimer's Disease concerning the Phase 2 trial data for bapineuzumab. In July 2011 and throughout 2012, we received supplemental requests for documents from the SEC and/or the U.S. Department of Justice (DOJ) related to this matter. We have provided the SEC and the DOJ with materials in connection with the investigation.

We and some of our officers and directors were named as defendants in five putative class action lawsuits filed in the U.S. District Court for the Southern District of New York in 2008. The cases were consolidated as In Re: Elan Corporation Securities Litigation. The plaintiffs Consolidated Amended Complaint was filed on August 17, 2009, and alleged claims under the U.S. federal securities laws and sought damages on behalf of all purchasers of our stock during periods ranging between May 21, 2007 and October 21, 2008. The complaints alleged that we issued false and misleading public statements concerning the safety and efficacy of bapineuzumab. On July 23, 2010, a securities case was filed in the U.S. District Court for the Southern District of New York. This case was accepted by the court as a related case to the existing 2008 matter. The 2010 case purported to be filed on behalf of all purchasers of Elan call options during the period from June 17, 2008 to July 29, 2008. On August 10, 2011, the court dismissed the class action lawsuits with prejudice. The related case plaintiffs appealed the dismissal to the U.S. Court of Appeals for the Second Circuit which dismissed the appeal on February 1, 2013.

***Tysabri product liability lawsuits***

We and our collaborator Biogen Idec are co-defendants in product liability lawsuits arising out of the occurrence of PML and other serious adverse events, including deaths, which occurred in patients taking *Tysabri*. We expect additional product liability lawsuits related to *Tysabri* to be filed. While we intend to vigorously defend these lawsuits, we cannot predict how these cases will be resolved. Adverse results in one or more of these lawsuits could result in substantial monetary judgments against us.

**35. Related Parties**

***Janssen AI***

Janssen AI, a newly formed subsidiary of Johnson & Johnson, acquired substantially all of the assets and rights related to the AIP with Wyeth (which has been acquired by Pfizer) in September 2009. In consideration for the transfer of these assets and rights, we received a 49.9% equity interest in Janssen AI which was recorded as an equity method investment. For additional information relating to our equity method investment, refer to Note 9.

Following the divestment of the AIP business to Janssen AI in September 2009, we provided administrative, I.T., and R&D transition services to Janssen AI, and recorded fees of \$3.7 million in 2010 related to these transition services. These activities ceased in December 2010, with the exception of I.T. related services which ceased in 2011. We received sublease rental income of \$2.4 million in 2012 (2011: \$2.2 million, 2010: \$2.3 million) from Janssen AI in respect of agreements for office and laboratory space in South San Francisco and office space in Dublin. The total expense in 2012 relating to equity-settled share based awards held by former Elan employees that transferred to Janssen AI was \$1.5 million (2011: \$2.4 million; 2010: \$0.4 million).



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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Alkermes plc***

In connection with the divestment of our EDT business on September 16, 2011, we received \$500.0 million in cash consideration and 31.9 million ordinary shares of Alkermes plc, which represented approximately 25% of the equity of Alkermes plc at the close of the transaction. Our equity interest in Alkermes plc was recorded as an equity method investment on the Consolidated Balance Sheet at an initial carrying value of \$528.6 million, based on the closing share price of \$16.57 of Alkermes, Inc. shares on the date of the transaction.

On March 13, 2012, we announced that we had sold 24.15 million of the ordinary shares that we held in Alkermes plc for net proceeds of \$380.9 million after deduction of underwriter and other fees. Following this sale, we continued to own 7.75 million ordinary shares of Alkermes plc, representing approximately 6% of the ordinary shares of Alkermes plc.

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

Following the divestment of the EDT business to Alkermes plc, we provided administrative and I.T. transition services to Alkermes plc, and recorded fees of \$0.3 million in 2012 (2011: \$1.1 million) related to these transition services. At December 31, 2012, there was no balance owing to us from Alkermes plc (2011: \$1.9 million).

***Prothena Corporation, plc***

On December 20, 2012, we completed the separation of the Prothena Business, into a new, publicly traded company incorporated in Ireland. The issued share capital of Prothena was admitted to trading on the NASDAQ Global Market on December 21, 2012. The separation of the Prothena Business from Elan was completed through a demerger under Irish law. The demerger was effected by Elan transferring our wholly-owned subsidiaries that comprised the Prothena Business to Prothena, in exchange for Prothena issuing Prothena ordinary shares directly to Elan shareholders, on a pro rata basis. Prothena's issuance of its outstanding shares constituted a deemed in specie distribution by Elan to its shareholders. Each Elan shareholder received one Prothena ordinary share for every 41 Elan ordinary shares or Elan ADSs held.

Immediately following the separation of the Prothena Business, a wholly owned subsidiary of Elan subscribed for 3.2 million newly-issued ordinary shares of Prothena, representing 18% of the outstanding ordinary shares of Prothena. This investment has been recorded as an available-for-sale investment on the Consolidated Balance Sheet at an initial fair value of \$22.9 million. In connection with the separation of the Prothena Business, we made a cash distribution to Prothena, which together with the consideration for 18% of Prothena's outstanding ordinary shares, totaled \$125.0 million. See Note 17 for further details of the available for sale investment.

On December 20, 2012, we entered into a Transition Services Agreement for a period of six months post separation and in no event later than December 31, 2013, with Prothena pursuant to which Prothena and we will provide each other with specified services, including Chemistry Manufacturing and Controls (CMC)/quality assurance, information services, IT services, facilities services, company secretarial services, finance services, legal services, compliance services and human relations services. We also entered a Research and Development Services Agreement with Prothena under which Prothena will provide certain research and development services to Elan for a minimum of two years and for a minimum fixed charge of \$0.5 million per annum.

We did not earn or incur any fees related to the Transition Services Agreement or the Research and Development Services Agreement during 2012.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Transactions with Directors*

Except as set out below, there are no service contracts in existence between any of the directors and Elan:

## Non-Executive Directors Terms of Appointment

Period	Three-year term which can be extended by mutual consent, contingent on satisfactory performance and re-election at the Annual General Meeting (AGM).
Termination	By the director or the Company at each party's discretion without compensation.
Fees	<p><u>Board Membership Fees</u></p> <p>Chairman's Fee \$ 150,000<sup>(1)</sup></p> <p>Director's Fee \$ 55,000<sup>(2)</sup></p> <p><u>Additional Board/Committee Fees</u></p> <p>Lead Independent Director's Fee \$ 20,000</p> <p>Audit Committee Chairman's Fee \$ 25,000<sup>(3)</sup></p> <p>Audit Committee Member's Fee \$ 15,000</p> <p>Other Committee Chairman's Fee \$ 20,000<sup>(3)</sup></p> <p>Other Committee Member's Fee \$ 12,500</p>
Equity	<p>Non-executive directors are entitled to be considered for an annual equity award, based on the recommendation of the LDCC and supported by the advice of the LDCC's compensation consultants. Such equity awards are normally granted in February of each year and are currently made in the form of RSUs. The awards to be made in February 2013 will have the following grant date fair values:</p> <p>Chairman \$ 400,000<sup>(1)</sup></p> <p>Other non-executive directors \$ 200,000<sup>(2)</sup></p>
Expenses	Reimbursement of travel and other expenses reasonably incurred in the performance of their duties.
Time commitment	<p>Five scheduled in-person board meetings, the AGM and relevant committee meetings depending upon board/committee requirements and general corporate activity.</p> <p>Non-executive board members are also expected to be available for a number of unscheduled board and committee meetings, where applicable, as well as to devote appropriate preparation time ahead of each meeting.</p>
Confidentiality	Information acquired by each director in carrying out their duties is deemed confidential and cannot be publicly released without prior clearance from the chairman of the board.

<sup>(1)</sup> The chairman's compensation for 2013 consists of a fee of \$150,000 (2012: \$150,000) and RSUs with a grant date fair value of \$400,000 (2012:\$400,000), amounting to a total value of \$550,000 in 2013 (2012: \$550,000). The chairman does not receive additional compensation for sitting on board committees.





**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (2) *Non-executive directors can elect to receive their fee payments in the form of RSUs, which will vest on the earlier of 90 days after their retirement from the Board or 10 years. In 2012, Dr. Ekman (retired December 7, 2012), Mr. McGowan, Mr. McLaughlin and Dr. von Eschenbach elected to receive all or part of their fee payments in the form of RSUs.*
- (3) *Inclusive of committee membership fee.*

Mr. Martin

On January 7, 2003, we and Elan Pharmaceuticals, Inc. (EPI) entered into an agreement with Mr. Martin such that Mr. Martin was appointed president and CEO effective February 3, 2003.

Effective December 7, 2005, we and EPI entered into a new employment agreement with Mr. Martin, under which Mr. Martin continued to serve as our CEO with an initial base annual salary of \$798,000. Under the 2003 agreement, Mr. Martin was eligible to participate in our annual bonus plan, performance-based stock awards and merit award plans. Under the new agreement, Mr. Martin was granted an option to purchase 750,000 Ordinary Shares with an exercise price per share of \$12.03, vesting in three equal annual instalments (the 2005 Options). Mr. Martin's employment agreement was amended on December 19, 2008 to comply with the requirements of Section 409A of the IRC.

On June 2, 2010, Elan and Mr. Martin agreed to amend his 2005 employment contract from an open-ended agreement to a fixed term agreement. Under this 2010 agreement, Mr. Martin committed to remain in his current role as CEO and director of the Company through to May 1, 2012. It was agreed that upon the completion of this fixed term Mr. Martin would then serve the board as executive adviser through to January 31, 2013. Under this amendment, Mr. Martin's base salary was increased from \$800,000 to \$1,000,000 per year effective June 1, 2010, and when Mr. Martin moved to the role of executive adviser, his base salary was to be reduced to \$750,000 per year, he would not be eligible for a bonus and he would resign from the board. However, as 2012 represented a significant transformational period for the Company, it was decided by the board that the Company and our shareholders would be best served by Mr. Martin continuing his leadership through this critical period and strategic inflection point. To that end, the board requested that Mr. Martin extend his tenure as the Elan CEO creating continuity and an opportunity to achieve further clarity for Elan's strategic and financial path forward. Mr. Martin agreed to this request and the extension.

Effective April 30, 2012, we, EPI and Mr. Martin amended and restated Mr. Martin's employment agreement. Under the amended and restated agreement, Mr. Martin's term as CEO was extended indefinitely while his base salary remained at \$1,000,000 per year, the vesting of his equity awards that were granted in February 2012 was accelerated to October 2012, the vesting of any equity awards granted in 2013 would receive partial acceleration upon termination of Mr. Martin's employment, and Mr. Martin was awarded an option to purchase 486,000 shares (subsequently adjusted to 501,754 shares on December 20, 2012, in connection with the separation and distribution of the Prothena Business. Refer to Note 30 for additional information on the December 20, 2012, equity adjustments), with an exercise price per share of \$13.79 (subsequently adjusted to \$13.36 on December 20, 2012), and an RSU grant covering 81,000 shares (subsequently adjusted to 83,626 shares on December 20, 2012). The equity awards granted in April 2012 vest over a two year period.

In general, the amended and restated agreement, continues until Mr. Martin resigns, is involuntarily terminated, is terminated for cause or dies, or is disabled. Subject to certain conditions, if Mr. Martin's employment is involuntarily terminated (other than for cause, death or disability), Mr. Martin leaves for good reason or Mr. Martin resigns on or after April 2, 2013, we will pay Mr. Martin a lump sum equal to two (three, in the event of a change in control) times his salary and target bonus. Similarly, most options will be exercisable until the earlier of (i) two years from the date of termination or (ii) tenth anniversary of the date of grant, or in the event of a change in control, the earlier of (i) three years from the date of termination or (ii) the tenth anniversary of the date of grant of the stock option.

In the event of such an involuntary termination (other than as the result of a change in control), Mr. Martin will, for a period of two years (three years in the event of a change in control), or, if earlier, the date Mr. Martin obtains other employment, continue to participate in our health and medical plans and we shall pay Mr. Martin a lump sum of \$50,000 to cover other costs and expenses. Mr. Martin will also be entitled to career transition assistance and the use of an office and the services of a full-time secretary for a reasonable period of time not to exceed two years (three years in the event of a change in control).

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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In addition, if it is determined that any payment or distribution to Mr. Martin would be subject to excise tax under Section 4999 of the IRC, or any interest or penalties are incurred by Mr. Martin with respect to such excise tax, then Mr. Martin shall be entitled to an additional payment in an amount such that after payment by Mr. Martin of all taxes on such additional payment, Mr. Martin retains an amount of such additional payment equal to such excise tax amount.

The agreement also obligates us to indemnify Mr. Martin if he is sued or threatened with suit as the result of serving as our officer or director. We will be obligated to pay Mr. Martin's attorney's fees if he has to bring an action to enforce any of his rights under the employment agreement.

Mr. Martin is eligible to participate in the retirement, medical, disability and life insurance plans applicable to senior executives in accordance with the terms of those plans. He may also receive financial planning and tax support and advice from the provider of his choice at a reasonable and customary annual cost.

**Mr. McLaughlin**

In 2012, 2011 and 2010, Davy, an Irish based stock broking, wealth management and financial advisory firm, of which Mr. McLaughlin is deputy chairman, provided advisory services to the company. The total invoiced value of these services in 2012 was \$1.3 million (2011: \$0.2 million, 2010: \$0.3 million), of which \$1.1 million related to services rendered in relation to the offering of the 6.25% Notes.

In November 2011, the Company engaged an adult son of Mr. McLaughlin as a consultant in relation to the Company's investor relations programs for a fixed period. The amount invoiced for these services in 2012 was 70,800 (2011: 11,800). Mr. McLaughlin's son was not an executive officer of Elan and did not have a key strategic role within Elan. The consultancy arrangement terminated on June 30, 2012.

**Dr. Selkoe**

In July 2009, EPI entered into a consultancy agreement with Dr. Selkoe under which Dr. Selkoe agreed to provide consultant services with respect to the treatment and/or prevention of neurodegenerative and autoimmune diseases. Under the agreement we paid Dr. Selkoe a fee of \$12,500 per quarter. The agreement was effective for three years unless terminated by either party upon 30 days written notice and superseded all prior consulting agreements between Dr. Selkoe and Elan. In July 2012, EPI and Dr. Selkoe agreed an amendment to the 2009 agreement which extended the term of the agreement to July 1, 2015 and increased the fee payable to \$18,000 per quarter. Under the consultancy agreements, Dr. Selkoe received \$61,000 in 2012 (2011: \$50,000; 2010: \$50,000).

Dr. Selkoe serves as a Company-nominated director of Janssen AI, a subsidiary of Johnson & Johnson in which Elan holds a 49.9% equity interest. In December 2010, Dr Selkoe entered into a consulting agreement with Johnson & Johnson Pharmaceutical Research & Development LLC. This agreement was amended in November 2011 to extend it until December 31, 2012. During 2011, Dr. Selkoe received a fee of \$1,600 in respect of services provided under this agreement. On February 2, 2012, this consulting agreement was terminated.

***Arrangements with Former Directors***

**Dr. Ekman**

Effective December 31, 2007, Dr. Lars Ekman resigned from his operational role as president of R&D and continued to serve as a member of the board of directors of Elan in a non-executive capacity. Dr. Ekman retired from the board on December 7, 2012 in contemplation of his appointment as chairman of Prothena Corporation plc.

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**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As part of Dr. Ekman's retirement from executive duties, we agreed to make payments if we achieve certain milestones in respect of our Alzheimer's disease program. To date none of the required milestones have been triggered and no payments have been made.

Mr. Schuler, Mr. Bryson and Crabtree Partners L.L.C.

On September 17, 2010, we entered into agreements with Mr. Schuler and Mr. Bryson whereby we agreed to pay to Mr. Schuler and Mr. Bryson the aggregate amount of \$300,000 in settlement of all costs, fees and expenses incurred by them in respect of any and all matters relating to the Irish High Court litigation and the U.S. Securities and Exchange Commission (SEC) investigation of Mr. Schuler. Under the agreements, Mr. Schuler and Mr. Bryson agreed to resign from the board, and they subsequently resigned on October 29, 2010.

On June 8, 2009, we entered into an agreement with Mr. Schuler, Mr. Bryson and Crabtree Partners L.L.C. (an affiliate of Mr. Schuler and a shareholder of the Company) (collectively the Crabtree Group). Pursuant to this Agreement, we agreed to nominate Mr. Schuler and Mr. Bryson for election as directors of the Company at the 2009 AGM. Mr. Schuler and Mr. Bryson irrevocably agreed to resign as directors of the Company effective on the first date on which Mr. Schuler, Mr. Bryson and Crabtree Partners L.L.C. cease to beneficially own, in aggregate, at least 0.5% of the Company's issued share capital. The Agreement also included a standstill provision providing that, until the later of December 31, 2009, amended to January 1, 2012, pursuant to the 2010 agreement, and the date that was three months after the date on which Mr. Schuler and Mr. Bryson cease to be directors of the Company, none of Mr. Schuler, Mr. Bryson, Crabtree Partners L.L.C. or any of their respective affiliates would, among other things, acquire any additional equity interest in the Company if, after giving effect to the acquisition, Mr. Schuler, Mr. Bryson, Crabtree Partners L.L.C. and their affiliates would own more than 3% of the Company's issued share capital. Finally, we agreed to reimburse the Crabtree Group for \$500,000 of documented out-of-pocket legal expenses incurred by their outside counsel in connection with the Agreement and the matters referenced in the Agreement.

Dr. Bloom

On July 17, 2009, EPI entered into a consultancy agreement with Dr. Bloom under which Dr. Bloom agreed to provide consultant services to Elan with respect to the treatment and/or prevention of neurodegenerative diseases and to act as an advisor to the science and technology committee (the 2009 Agreement). Effective July 17, 2011, the 2009 Agreement was extended for a further year (the Amended Agreement) and under which we would pay Dr. Bloom a fee of \$12,500 per quarter. Effective July 17, 2012, Dr. Bloom's Amended Agreement was renewed for a further 12 month period. As with its predecessor, this agreement can be terminated by either party upon 30 days written notice. Under the consultancy agreements, Dr. Bloom received \$50,000 in 2012 (2011: \$44,674).

Mr. Hasler

Effective October 1, 2012, Elan Pharmaceuticals GmbH entered into an employment agreement with Mr. Hasler under which Mr. Hasler was appointed our chief operating officer with an initial base annual salary of 600,000 CHF. Mr. Hasler is eligible to participate in our annual bonus plan. Mr. Hasler was awarded an option to purchase 375,000 shares vesting in three annual instalments. Mr. Hasler resigned from the board in October 2012 in connection with his appointment as chief operating officer.

***External Appointments and Retention of Fees***

The Company recognizes that executive directors (and senior management) may be invited to take up non-executive directorships, public sector and/or not-for-profit appointments, and that these can broaden the experience and knowledge of the individual, from which the Company can benefit. Executive directors (and senior management) may, subject to approval, accept external appointments as non-executive directors of other companies and retain any related fees paid to them.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**36. Development and Marketing Collaboration Agreements*****Biogen Idec***

In August 2000, we entered into a development and marketing Collaboration Agreement with Biogen Idec, successor to Biogen, Inc., to collaborate in the development and commercialization of *Tysabri* for MS and Crohn's disease, with Biogen Idec acting as the lead party for MS and Elan acting as the lead party for Crohn's disease.

In November 2004, *Tysabri* received regulatory approval in the United States for the treatment of relapsing forms of MS. In February 2005, Elan and Biogen Idec voluntarily suspended the commercialization and dosing in clinical trials of *Tysabri*. This decision was based on reports of serious adverse events involving cases of PML, a rare and potentially fatal, demyelinating disease of the central nervous system.

In June 2006, the FDA approved the reintroduction of *Tysabri* for the treatment of relapsing forms of MS. Approval for the marketing of *Tysabri* in the European Union was also received in June 2006 and has subsequently been received in a number of other countries. The distribution of *Tysabri* in both the United States and the European Union commenced in July 2006. Global in-market net sales of *Tysabri* in 2012 were \$1,631.1 million (2011: \$1,510.6 million; 2010: \$1,230.0 million), consisting of \$886.0 million (2011: \$746.5 million; 2010: \$593.2 million) in the U.S. market and \$745.1 million (2011: \$764.1 million; 2010: \$636.8 million) in the ROW.

In January 2008, the FDA approved the supplemental Biologics License Application (sBLA) for *Tysabri* for the treatment of patients with Crohn's disease, and *Tysabri* was launched in this indication at the end of the first quarter of 2008. In July 2008, we made an optional payment of \$75.0 million to Biogen Idec in order to maintain our approximate 50% share of *Tysabri* for annual global in-market net sales of *Tysabri* that are in excess of \$700.0 million. In addition, in December 2008, we exercised our option to pay a further \$50.0 million milestone to Biogen Idec in order to maintain our percentage share of *Tysabri* at approximately 50% for annual global in-market net sales of *Tysabri* that are in excess of \$1.1 billion. There are no further milestone payments required for us to retain our approximate 50% profit share.

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

*Tysabri* was developed in collaboration with Biogen Idec. Until the *Tysabri* Transaction closes, *Tysabri* continues to be marketed in collaboration with Biogen Idec and, subject to certain limitations imposed by the parties, we share with Biogen Idec most development and commercialization costs. Upon consummation of the *Tysabri* Transaction, Biogen Idec will be responsible for all development and commercialization costs. Biogen Idec is responsible for manufacturing the product. In the United States, we purchase *Tysabri* from Biogen Idec and are responsible for distribution. Consequently, we record as revenue the net sales of *Tysabri* in the U.S. market. We purchase product from Biogen Idec as required at a price, which includes the cost of manufacturing, plus Biogen Idec's gross profit on *Tysabri* and this cost, together with royalties payable to other third parties, is included in cost of sales.

In the ROW markets, Biogen Idec is responsible for distribution and we record as revenue our share of the profit or loss on ROW sales of *Tysabri*, plus our directly incurred expenses on these sales. In 2012, we recorded ROW revenue of \$316.6 million (2011: \$317.6 million; 2010: \$258.3 million).

**Elan Corporation, plc****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

If the *Tysabri* Transaction is not consummated, the Collaboration Agreement will expire in November 2019, but may be extended by mutual agreement of the parties. If the agreement is not extended, then each of Biogen Idec and Elan has the option to buy the other party's rights to *Tysabri* upon expiration of the term. Each party has a similar option to buy the other party's rights to *Tysabri* if the other party undergoes a change of control (as defined in the Collaboration Agreement); however in some circumstances this option will terminate if the *Tysabri* Transaction fails to complete. In addition, each of Biogen Idec and Elan can terminate the agreement for convenience or material breach by the other party, in which case, among other things, certain licenses, regulatory approvals and other rights related to the manufacture, sale and development of *Tysabri* are required to be transferred to the party that is not terminating for convenience or is not in material breach of the agreement.

For additional information relating to *Tysabri*, refer to Note 12.

***Johnson & Johnson AIP Agreements***

On September 17, 2009, Janssen AI, a newly formed subsidiary of Johnson & Johnson, completed the acquisition of substantially all of our assets and rights related to the AIP. In addition, Johnson & Johnson, through its affiliate Janssen Pharmaceutical, invested \$885.0 million in exchange for newly issued American Depositary Receipts (ADRs) of Elan, representing 18.4% of our outstanding Ordinary Shares at the time.

Under the terms of the transaction, Johnson & Johnson provided an initial \$500.0 million of funding to Janssen AI for the development and commercialization of the AIP and Elan has a 49.9% shareholding in Janssen AI. The AIP is a collaboration between Janssen AI and Pfizer, which control all operational aspects of the AIP, including bapineuzumab. Through its shareholding in Janssen AI, Elan has an approximate 25.0% economic interest in the AIP, together with certain royalty rights on any future commercialization of the AIP. Any required additional expenditures in respect of Janssen AI's obligations under the AIP collaboration in excess of the initial \$500.0 million funded by Johnson & Johnson will be required to be funded by Johnson & Johnson and Elan in proportion to their respective shareholdings in Janssen AI, up to a maximum additional funding commitment of \$400.0 million in total. During 2012, we provided \$76.9 million of our proportionate funding commitment and in January 2013, we provided an additional \$29.9 million of our funding commitment. Following the provision of this funding in January 2013, our remaining funding commitment to Janssen AI is \$93.2 million. In the event that the AIP collaboration requires expenditures in excess of the additional \$400.0 million pro rata commitment, the funding for such expenditures will be on terms determined by the board of directors of Janssen AI, with Johnson & Johnson and Elan each having a right of first refusal to provide such funding. If we fail to provide our share of the \$400.0 million commitment or any additional funding that is required for the development of the AIP, and if Johnson & Johnson elects to fund such an amount, our interest in Janssen AI could, at the option of Johnson & Johnson, be commensurately reduced.

On August 6, 2012, Johnson & Johnson issued a press release announcing that Janssen AI and Pfizer had determined to discontinue the development of bapineuzumab intravenous in mild to moderate Alzheimer's disease based on the co-primary clinical endpoints not being met in the Janssen AI-led Phase 3 clinical studies (Study 301 and 302). We subsequently recorded a non-cash impairment charge of \$117.3 million on our equity method investment in Janssen AI, representing the full initial estimated value of our 49.9% share of the Janssen AI AIP assets.

Under the terms of the Johnson & Johnson Transaction, if we undergo a change of control, an affiliate of Johnson & Johnson will be entitled to purchase our 49.9% interest in Janssen AI at the then fair value.

***Transition Therapeutics Collaboration Agreement***

In September 2006, we entered into an exclusive, worldwide collaboration with Transition for the joint development and commercialization of a novel therapeutic agent for Alzheimer's disease. The small molecule, ELND005, is a beta amyloid anti-aggregation agent that has been granted fast track designation by the FDA. In December 2007, the first patient was dosed in a Phase 2 clinical study. This 18-month, randomized, double-blind, placebo-controlled, dose-ranging study was designed to evaluate the safety and efficacy of ELND005 in approximately 340 patients with mild to moderate Alzheimer's disease. In December 2009, we announced that patients would be withdrawn from the two highest dose groups due to safety concerns. In August 2010, Elan and Transition announced the top-line summary results of the Phase 2 clinical study and in September 2011, the Phase 2 clinical study data was published in the journal *Neurology*. The study's cognitive and functional co-primary endpoints did not achieve statistical significance. The 250mg twice daily dose demonstrated a biological effect on amyloid-beta protein in the cerebrospinal fluid (CSF), in a subgroup of patients who provided CSF samples. This dose achieved targeted drug levels in the CSF and showed some effects on clinical endpoints in an exploratory analysis.



**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In December 2010, we modified our Collaboration Agreement with Transition and, in connection with this modification, Transition elected to exercise its opt-out right under the original agreement. Under this amendment, we paid Transition \$9.0 million in 2010 and Transition received a further \$11.0 million payment upon our commencement of an ELND005 Phase 2 clinical trial in 2012. Transition will no longer be eligible to receive a \$25.0 million milestone that would have been due upon the commencement of a Phase 3 trial for ELND005 under the terms of the original agreement.

As a consequence of Transition's decision to exercise its opt-out right, it no longer funds the development or commercialization of ELND005 and has relinquished its 30% ownership of ELND005 to us. Consistent with the terms of the original agreement, following its opt-out decision, Transition will be entitled to receive milestone payments of up to \$93.0 million, along with tiered royalty payments ranging in percentage from a high single digit to the mid teens (subject to offsets) based on net sales of ELND005 should the drug receive the necessary regulatory approvals for commercialization. The term of the Collaboration Agreement runs until we are no longer developing or commercializing ELND005. We may terminate the Collaboration Agreement upon not less than 90 days notice to Transition and either party may terminate the Collaboration Agreement for material breach or because of insolvency of the other party.

In 2012, we initiated two Phase 2 clinical trials of ELND005. The first Phase 2 clinical trial is a safety and efficacy study of ELND005 as an adjunctive treatment of Bipolar Disease (Study BPD201) and the second Phase 2 trial studies ELND005 for the treatment of agitation/aggression in patients with moderate to severe Alzheimer's disease (Study AG201).

**37. Supplemental Guarantor Information**

Elan Finance, plc and Elan Finance Corp., as Issuers of the 6.25% Notes and all of the subsidiary guarantors are 100% owned subsidiaries of Elan Corporation, plc. As part of the offering and sale of the 6.25% Notes, Elan Corporation, plc and certain of its subsidiaries have guaranteed these notes.

Each subsidiary that has guaranteed our 6.25% Notes will be released from its guarantee in the event:

there is a legal defeasance of the 6.25% Notes;

there is a sale or other disposition of the shares or assets of the subsidiary if, after such sale or disposition, the subsidiary is no longer restricted for debt covenant purposes; or

the subsidiary is designated as unrestricted for debt covenant purposes; provided that any transaction is carried out in accordance with the provisions of the indenture governing the 6.25% Notes.

In accordance with the Indenture dated as of October 1, 2012, all guarantees provided by each subsidiary guarantor are full and unconditional, and joint and several in nature.

There are no significant restrictions on the ability of the parent company (Elan Corporation, plc) or any guarantor subsidiary to obtain funds from its subsidiaries by dividend or loan. There are certain restrictions imposed on the ability of the Company, to enter into any transactions or series of related transactions with our non guarantor subsidiaries. Elan Corporation, plc and the guarantor subsidiaries are not permitted to directly or indirectly enter into any transaction or series of related transactions for the benefit of any of its non guarantors unless:

the transaction is deemed to be on an arm's length basis;



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in the event that a transaction is on an arm's length basis and involves payments, transfers of property or services with a fair market value in excess of \$5 million, the terms of the transaction must be approved by the Board of Directors of Elan Corporation, plc;

in the event that a transaction is on an arm's length basis and involves payments, transfers of property or services with a fair market value in excess of \$15 million, the terms of the transaction must be approved by the Board of Directors of Elan Corporation, plc and an opinion obtained from an independent Financial Advisor that the transaction is fair from a financial and commercial point of view to the parent company and its guarantor subsidiaries.

Presented below is condensed consolidating information for Elan Finance plc, the issuer of the debt, Elan Corporation, plc, the parent guarantor of the debt, the guarantor subsidiaries of Elan Corporation, plc, and the non-guarantor subsidiaries of Elan Corporation, plc.

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Condensed Consolidating Statements of Operations

For the Year Ended December 31, 2012

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In millions)	Elimination Adjustments	Consolidated
<b>Continuing Operations</b>						
Revenue	\$	\$	\$ 1,045.0	\$ 0.7	\$ (1,045.5)	\$ 0.2
Cost of sales			750.5		(750.3)	0.2
Gross margin			294.5	0.7	(295.2)	
Operating expenses:						
Selling, general and administrative expenses		51.6	111.5	6.2	(55.7)	113.6
Research and development expenses			309.5	25.0	(239.5)	95.0
Other net charges/(gains)			168.6	0.3		168.9
Net loss on divestment of business		17.1	(17.1)			
Total operating expenses		68.7	572.5	31.5	(295.2)	377.5
Operating (loss)/income		(68.7)	(278.0)	(30.8)		(377.5)
Share of net losses of subsidiaries		(304.0)			304.0	
Net interest and investment (gains)/losses	(0.7)		345.9	10.5		355.7
Income/(loss) before provision for income taxes	0.7	(372.7)	(623.9)	(41.3)	304.0	(733.2)
Provision for/(benefit from) income taxes	0.2		(360.7)			(360.5)
Net income/(loss) from continuing operations	\$ 0.5	\$ (372.7)	\$ (263.2)	\$ (41.3)	\$ 304.0	\$ (372.7)
<b>Discontinued Operations</b>						
Net income from discontinued operations (net of tax)			235.3			235.3
Share of net income from discontinued operations (net of tax)		235.3			(235.3)	
Net income/(loss) for the year	\$ 0.5	\$ (137.4)	\$ (27.9)	\$ (41.3)	\$ 68.7	\$ (137.4)

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Condensed Consolidating Statements of Operations

For the Year Ended December 31, 2011

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimination Adjustments	Consolidated
	(In millions)					
<b>Continuing Operations</b>						
Revenue	\$	\$	\$ 841.4	\$	\$ (837.4)	\$ 4.0
Cost of sales			638.9		(638.1)	0.8
Gross margin			202.5		(199.3)	3.2
Operating expenses:						
Selling, general and administrative expenses		43.5	113.8	5.1	(55.2)	107.2
Research and development expenses			226.9	22.8	(142.9)	106.8
Net gain on divestment of businesses			67.0	(67.0)		
Other net (gains)/charges			25.5		(1.2)	24.3
Total operating expenses		43.5	433.2	(39.1)	(199.3)	238.3
Operating (loss)/income		(43.5)	(230.7)	39.1		(235.1)
Share of net gains/(losses) of subsidiaries		(410.0)			410.0	
Net interest and investment losses/(gains)	0.1		241.3	(11.0)		230.4
(Loss)/income before provision for income taxes	(0.1)	(453.5)	(472.0)	50.1	410.0	(465.5)
(Benefit from)/provision for income taxes	(0.1)		(11.9)			(12.0)
Net income/(loss) from continuing operations	\$	\$ (453.5)	\$ (460.1)	\$ 50.1	\$ 410.0	\$ (453.5)
<b>Discontinued Operations</b>						
Net income from discontinued operations (net of tax)			1,014.0			1,014.0
Share of net income from discontinued operations (net of tax)		1,014.0			(1,014.0)	
Net income/(loss) for the year	\$	\$ 560.5	\$ 553.9	\$ 50.1	\$ (604.0)	\$ 560.5

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Condensed Consolidating Statements of Operations

For the Year Ended December 31, 2010

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimination Adjustments	Consolidated
	(In millions)					
<b>Continuing Operations</b>						
Revenue	\$	\$	\$ 766.2	\$	\$ (722.1)	\$ 44.1
Cost of sales			500.5		(488.3)	12.2
Gross margin			265.7		(233.8)	31.9
Operating expenses:						
Selling, general and administrative expenses		62.8	109.3	5.2	(53.1)	124.2
Research and development expenses			299.6	9.1	(180.2)	128.5
Settlement reserve charge			206.3			206.3
Net gain on divestment of businesses			(1.0)			(1.0)
Other net charges/(gains)		0.9	52.9	(0.5)	(0.5)	52.8
Total operating expenses		63.7	667.1	13.8	(233.8)	510.8
Operating (loss)/income		(63.7)	(401.4)	(13.8)		(478.9)
Share of net gains/(losses) of subsidiaries		(497.6)			497.6	
Net interest and investment (gains)/losses	(1.2)		141.6	(5.8)		134.6
Income/(loss) before provision for income taxes	1.2	(561.3)	(543.0)	(8.0)	497.6	(613.5)
Provision for/(benefit from) income taxes	0.3		(52.5)			(52.2)
Net income/(loss) from continuing operations	\$ 0.9	\$ (561.3)	\$ (490.5)	\$ (8.0)	\$ 497.6	\$ (561.3)
<b>Discontinued Operations</b>						
Net income from discontinued operations (net of tax)			236.6			236.6
Shares of net income from discontinued operations (net of tax)		236.6			(236.6)	
Net income/(loss) for the year	\$ 0.9	\$ (324.7)	\$ (253.9)	\$ (8.0)	\$ 261.0	\$ (324.7)

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Condensed Consolidating Balance Sheets

For the Year Ended December 31, 2012

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries (In millions)	Elimination Adjustments	Consolidated
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$ 2.7	\$ 0.1	\$ 412.3	\$ 16.2	\$	\$ 431.3
Restricted cash current			2.6			2.6
Accounts receivable, net			193.5			193.5
Assets held for sale			113.8		106.3	220.1
Investment securities current			1.1	166.8		167.9
Inventory			25.1		(25.1)	
Intercompany receivables	5.3	2,979.0	4,308.2	638.7	(7,931.2)	
Deferred tax assets current	0.2		380.7			380.9
Prepaid and other current assets			13.2			13.2
Total current assets	8.2	2,979.1	5,450.5	821.7	(7,850.0)	1,409.5
Property, plant and equipment, net			12.7			12.7
Goodwill and other intangible assets, net			3.0		96.0	99.0
Equity method investment				14.0		14.0
Investment securities non-current			8.6			8.6
Investments in subsidiaries			12,545.2		(12,545.2)	
Restricted cash non-current			13.7			13.7
Intercompany receivables	588.0		7,241.9	1.1	(7,831.0)	
Deferred tax assets non-current	0.3		64.3			64.6
Other assets	11.8		6.3			18.1
Total assets	\$ 608.3	\$ 2,979.1	\$ 25,346.2	\$ 836.8	\$ (28,130.2)	\$ 1,640.2
<b>LIABILITIES AND SHAREHOLDERS EQUITY/(DEFICIT)</b>						
Current Liabilities:						
Accounts payable	\$	\$	\$ 45.6	\$	\$	\$ 45.6
Accrued and other current liabilities	9.6	0.1	302.7	0.1	1.6	314.1
Intercompany payables	0.1	2,147.2	6,268.0	160.5	(8,575.8)	
Total current liabilities	9.7	2,147.3	6,616.3	160.6	(8,574.2)	359.7
Long term debts	600.0					600.0
Intercompany payables		174.5	11,834.8		(12,009.3)	
Other liabilities		39.1	23.2			62.3
Total liabilities	609.7	2,360.9	18,474.3	160.6	(20,583.5)	1,022.0
Shareholders equity/(deficit)	(1.4)	618.2	6,871.9	676.2	(7,546.7)	618.2
Total liabilities and shareholders equity/(deficit)	\$ 608.3	\$ 2,979.1	\$ 25,346.2	\$ 836.8	\$ (28,130.2)	\$ 1,640.2



## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Condensed Consolidating Balance Sheets

For the Year Ended December 31, 2011

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimination Adjustments	Consolidated
	(In millions)					
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$ 1.8	\$ 0.8	\$ 265.7	\$ 3.4	\$	\$ 271.7
Restricted cash current			2.6			2.6
Accounts receivable, net			167.7			167.7
Investment securities current			0.3			0.3
Inventory			42.2		(18.4)	23.8
Intercompany receivables	22.8	2,964.0	3,646.3	140.3	(6,773.4)	
Deferred tax assets current	0.1		26.1			26.2
Prepaid and other current assets			25.7			25.7
<b>Total current assets</b>	<b>24.7</b>	<b>2,964.8</b>	<b>4,176.6</b>	<b>143.7</b>	<b>(6,791.8)</b>	<b>518.0</b>
Property, plant and equipment, net			83.2			83.2
Goodwill and other intangible assets, net			107.0		202.9	309.9
Equity method investment			130.6	545.2		675.8
Investment securities non-current			9.8			9.8
Investments in subsidiaries			12,545.6		(12,545.6)	
Restricted cash non-current			13.7			13.7
Intercompany receivables	588.4		7,021.6	1.1	(7,611.1)	
Deferred tax assets non-current	0.6		123.5		(5.2)	118.9
Other assets	11.1		13.3		0.1	24.5
<b>Total assets</b>	<b>\$ 624.8</b>	<b>\$ 2,964.8</b>	<b>\$ 24,224.9</b>	<b>\$ 690.0</b>	<b>\$ (26,750.7)</b>	<b>\$ 1,753.8</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY/(DEFICIT)</b>						
Current Liabilities:						
Accounts payable	\$	\$	\$ 46.4	\$	\$	\$ 46.4
Accrued and other current liabilities	11.4	0.1	210.6		7.8	229.9
Intercompany payables	0.2	1,975.4	5,446.6	5.7	(7,427.9)	
<b>Total current liabilities</b>	<b>11.6</b>	<b>1,975.5</b>	<b>5,703.6</b>	<b>5.7</b>	<b>(7,420.1)</b>	<b>276.3</b>
Long term debts	615.0					615.0
Intercompany payables		175.3	11,614.9		(11,790.2)	
Other liabilities		12.2	53.7		(5.2)	60.7
<b>Total liabilities</b>	<b>626.6</b>	<b>2,163.0</b>	<b>17,372.2</b>	<b>5.7</b>	<b>(19,215.5)</b>	<b>952.0</b>
Shareholders equity/(deficit)	(1.8)	801.8	6,852.7	684.3	(7,535.2)	801.8
<b>Total liabilities and shareholders equity/(deficit)</b>	<b>\$ 624.8</b>	<b>\$ 2,964.8</b>	<b>\$ 24,224.9</b>	<b>\$ 690.0</b>	<b>\$ (26,750.7)</b>	<b>\$ 1,753.8</b>





## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Condensed Consolidating Statements of Cash Flows

For the Year Ended December 31, 2012

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimination Adjustments	Consolidated
	(In millions)					
<b>Cash flows from operating activities:</b>						
Net cash provided by/(used in) operating activities	\$ 95.5	\$ (21.5)	\$ 36.5	\$ (55.2)	\$	\$ 55.3
<b>Cash flows from investing activities:</b>						
Purchase of property, plant and equipment			(10.3)			(10.3)
Purchase of intangible assets			(1.8)			(1.8)
Purchase of investment securities			(0.7)			(0.7)
Funding of equity method investment in Janssen AI			(76.9)			(76.9)
Receipt of deferred consideration			12.0			12.0
Proceeds from sale of equity method investment				380.9		380.9
Net cash (used in)/provided by investing activities			(77.7)	380.9		303.2
<b>Cash flows from financing activities:</b>						
Cash distribution to Prothena Corporation, plc		(99.0)		(26.0)		(125.0)
Proceeds from employee stock issuances		20.8				20.8
Repayment of loans	(682.5)					(682.5)
Net proceeds from debt issuances	587.9					587.9
Loans to group undertakings		99.0	187.9	(286.9)		
Repayment of government grants						
Net cash (used in)/provided by financing activities	(94.6)	20.8	187.9	(312.9)		(198.8)
Effect of exchange rate changes on cash			(0.1)			(0.1)
Net increase/(decrease) in cash and cash equivalents	0.9	(0.7)	146.6	12.8		159.6
Cash and cash equivalents at beginning of year	1.8	0.8	265.7	3.4		271.7
Cash and cash equivalents at end of year	\$ 2.7	\$ 0.1	\$ 412.3	\$ 16.2	\$	\$ 431.3

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Condensed Consolidating Statements of Cash Flows

For the Year Ended December 31, 2011

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimination Adjustments	Consolidated
	(In millions)					
<b>Cash flows from operating activities:</b>						
Net cash provided by/(used in) operating activities	\$ 697.4	\$ (5.8)	\$ (826.2)	\$ 14.4	\$	\$ (120.2)
<b>Cash flows from investing activities:</b>						
Decrease in restricted cash			206.8			206.8
Proceeds from disposal of property, plant and equipment			1.3			1.3
Purchase of property, plant and equipment			(27.3)			(27.3)
Purchase of intangible assets			(2.5)			(2.5)
Purchase of equity method investment				(20.0)		(20.0)
Purchase of non-current investment securities			(0.6)			(0.6)
Sale of investment securities			2.8			2.8
Proceeds from business disposals			500.0			500.0
Net cash used in investing activities			680.5	(20.0)		660.5
<b>Cash flows from financing activities:</b>						
Proceeds from employee stock issuances		6.3				6.3
Repayment of loans	(697.3)					(697.3)
Net proceeds from debt issuances						
Loans to group undertakings			132.1	(132.1)		
Repayment of government grants						
Net cash provided by/(used in) financing activities	(697.3)	6.3	132.1	(132.1)		(691.0)
Effect of exchange rate changes on cash			(0.1)			(0.1)
Net increase/(decrease) in cash and cash equivalents	0.1	0.5	(13.7)	(137.7)		(150.8)
Cash and cash equivalents at beginning of year	1.7	0.3	279.4	141.1		422.5
Cash and cash equivalents at end of year	\$ 1.8	\$ 0.8	\$ 265.7	\$ 3.4	\$	\$ 271.7

## Elan Corporation, plc

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Condensed Consolidating Statements of Cash Flows

For the Year Ended December 31, 2010

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimination Adjustments	Consolidated
	(In millions)					
<b>Cash flows from operating activities:</b>						
Net cash provided by/(used in) operating activities	\$ 259.8	\$ (5.0)	\$ (176.2)	\$ (10.4)	\$	\$ 68.2
<b>Cash flows from investing activities:</b>						
Decrease in restricted cash			(191.4)			(191.4)
Proceeds from disposal of property, plant and equipment			0.1			0.1
Purchase of property, plant and equipment			(40.9)			(40.9)
Purchase of intangible assets			(3.6)			(3.6)
Purchase of non-current investment securities			(0.9)			(0.9)
Sale of investment securities			16.4			16.4
Proceeds from business disposals			4.3			4.3
Net cash used in investing activities			(216.0)			(216.0)
<b>Cash flows from financing activities:</b>						
Proceeds from employee stock issuances		1.8				1.8
Repayment of loans	(455.0)					(455.0)
Net proceeds from debt issuances	187.1					187.1
Intercompany investments/capital contributions			(0.9)	0.9		
Loans to group undertakings			251.0	(251.0)		
Repayment of government grants						
Net cash provided by/(used in) financing activities	(267.9)	1.8	250.1	(250.1)		(266.1)
Effect of exchange rate changes on cash			(0.1)			(0.1)
Net increase/(decrease) in cash and cash equivalents	(8.1)	(3.2)	(142.2)	(260.5)		(414.0)
Cash and cash equivalents at beginning of year	9.8	3.5	421.6	401.6		836.5
Cash and cash equivalents at end of year	\$ 1.7	\$ 0.3	\$ 279.4	\$ 141.1	\$	\$ 422.5

**38. Subsequent Events**

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



**Elan Corporation, plc**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On January 31, 2013, we announced that we had agreed to sell all of our remaining 7.75 million ordinary shares of Alkermes plc. The sale closed on February 6, 2013 and we received proceeds of \$169.7 million. We will recognize a realized gain on the disposal of the Alkermes plc available-for-sale investment of \$43.2 million.

**Item 19. Exhibits.**

Exhibit Number	Description
1.1	Memorandum and Articles of Association of Elan Corporation, plc. (incorporated by reference to Exhibit 4.1 of Elan Corporation plc's Registration Statement on Form S-8 (Registration No. 333-181973 filed with the Securities and Exchange Commission (Commission) on June 7, 2012).
2(a)(1)	Amended and Restated Deposit Agreement by and among Elan Corporation, plc, Citibank, N.A., as Depository and the holders and beneficial owners of American Depositary Shares (incorporated by reference to Exhibit 4.2 to the Elan Corporation, plc Registration Statement on Form S-8 (registration No. 333-181971) filed with the Commission on June 7, 2012).
2(b)(1)	Registration Rights Agreement dated October 1, 2012 among Elan Finance Public Limited Company, Elan Finance Corp. Elan Corporation, plc. certain Subsidiary Guarantors and Morgan Stanley & Co. LLC (incorporated by reference to Exhibit 99.2 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on October 4, 2012).
2(c)(1)	Indenture dated as of October 1, 2012, among Elan Finance public limited company, Elan Finance Corp., Elan Corporation, plc, the Subsidiary Note Guarantors party thereto and BNY Mellon Corporate Trustee Services Limited, as Trustee and the Bank of New York Mellon, as Registrar and Paying Agent (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on October 4, 2012 Commission File No. 001-13896).
2(c)(2)	First Supplemental Indenture dated as of November 19, 2012, among Elan Finance public limited company, Elan Finance Corp., Elan Corporation, plc, Neotope Biosciences Limited, Onclave Therapeutics Limited, Prothema Biosciences Inc and each other Note Guarantor under the Indenture and The Bank of New York Mellon, as successor Trustee (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on November 27, 2012).
2(c)(3)	Second Supplemental Indenture dated as of January 11, 2013 among Elan Finance public limited company, Elan Finance Corp., Elan Corporation, plc, Elan Pharmaceuticals GmbH and each other Note Guarantor under the Indenture and The Bank of New York Mellon, as successor Trustee (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on January 11, 2013).
4(a)(1)	Antegen Development and Marketing Collaboration Agreement, dated as of August 15, 2000, by and between Biogen, Inc. and Elan Pharma International Limited (incorporated by reference to Exhibit 4(a)(1) of Elan Corporation, plc's Annual Report on Form 20-F for the fiscal year ended December 31, 2002 – confidential treatment has been granted for portions of this exhibit).
4(a)(2)	Asset Purchase Agreement, dated as of July 2, 2009, among Janssen Pharmaceutical, Juno Neurosciences, Elan Corporation, plc and the other Parties identified therein (incorporated by reference to Exhibit 4(a)(3) of Elan Corporation, plc's Annual Report on Form 20-F for the year ended December 31, 2009).
4(a)(3)	Subscription and Transfer Agreement, dated as of July 2, 2009, among Elan Corporation, plc, Keavy Holdings plc and Janssen Pharmaceutical (incorporated by reference to Exhibit 4(a)(4) of Elan Corporation, plc's Annual Report on Form 20-F for the year ended December 31, 2009).
4(a)(4)	Letter Agreement dated September 14, 2009 among Elan Corporation, plc, Athena Neurosciences, Inc., Crimagua Limited, Elan Pharmaceuticals, Inc., Elan Pharma International Limited, Keavy Finance plc, Janssen Pharmaceutical and Janssen Alzheimer Immunotherapy (incorporated by reference to Exhibit 4(a)(5) of Elan Corporation, plc's Annual Report on Form 20-F for the year ended December 31, 2009).
4(a)(5)	Investment Agreement, dated as of September 17, 2009, between Elan Corporation, plc and Janssen Pharmaceutical (incorporated by reference to Exhibit 4(a)(6) of Elan Corporation, plc's Annual Report on Form 20-F for the year ended December 31, 2009).
4(a)(6)	Shareholders' Agreement, dated as of September 17, 2009 by and among Janssen Pharmaceutical, Janssen Alzheimer Immunotherapy (Holding) Limited, Latam Properties Holdings, JNJ Irish Investments ULC, Elan Corporation, plc, Crimagua Limited, Elan Pharma International Limited and Janssen Alzheimer Immunotherapy (incorporated by reference to Exhibit 4(a)(6) of Elan Corporation, plc's Annual Report on Form 20-F for the year ended December 31, 2010).
4(a)(7)	Royalty Agreement dated as of September 17, 2009 among Janssen Alzheimer Immunotherapy, Janssen Alzheimer Immunotherapy (Holding) Limited and Elan Pharma International Limited (incorporated by reference to Exhibit 4(a)(8) of Elan Corporation, plc's Annual Report on Form 20-F for the year ended December 31, 2009).
4(a)(8)	Corporate Integrity Agreement between the Office of Inspector General of the Department of Health and Human Services and Elan Corporation, plc (incorporated by reference to Exhibit 4(a)(8) of Elan Corporation, plc's Annual Report on Form 20-F for the year ended December 31, 2010).
4(a)(9)	Plea Agreement, dated December 8, 2010, between the United States Attorney for the District of Massachusetts, the United States Department of Justice and Elan Pharmaceuticals, Inc. (incorporated by reference to Exhibit 10.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on February 28, 2011).

**Exhibit**

<b>Number</b>	<b>Description</b>
4(a)(10)	Settlement Agreement, effective December 15, 2010, among the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General of the Department of Health and Human Services, the TRICARE Management Activity, and the United States Office of Personnel Management; Elan Corporation, plc; and Lee R. Chartock, M.D. (incorporated by reference to Exhibit 10.2 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on February 28, 2011).
4(a)(11)	Business Combination Agreement And Plan Of Merger, dated as of May 9, 2011, by and among Elan Corporation, plc, Antler Science Two Limited, Elan Science Four Limited, EDT Pharma Holdings Limited, EDT US Holdco Inc., Antler Acquisition Corp. and Alkermes, Inc. (incorporated by reference to Exhibit 2.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on May 9, 2011).
4(a)(12)	Shareholder s Agreement, dated as of September 16, 2011, by and among Alkermes, plc, Elan Corporation, plc, and Elan Science Three Limited (incorporated by reference to Exhibit 4(a)(12) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, as amended).
4(b)(1)	Lease dated as of June 1, 2007 between Chamberlin Associates 180 Oyster Point Blvd., LLC and Elan Pharmaceuticals, Inc. (incorporated by reference to Exhibit 4(b)(1) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2007).
4(b)(2)	Lease dated as of December 17, 2007 between Chamberlin Associates 200 Oyster Point, L.P. and Elan Pharmaceuticals, Inc. (incorporated by reference to Exhibit 4(b)(2) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2007).
4(b)(3)	Lease dated September 1, 2004 among Ambiorix Limited, Elan Management Limited and Elan Corporation, plc. (incorporated by reference to Exhibit 4(b)(3) of Elan Corporation plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2012).
4(b)(4)	Lease dated April 30, 2008 among Ambiorix Limited, Elan Management Limited and Elan Corporation, plc, (incorporated by reference to Exhibit 4(b)(4) of Elan Corporation plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2012).
4(b)(5)	Lease Agreement made as of May 16, 2012 between ARE-TECH Square and Elan Pharmaceuticals, Inc., as amended by First Amendment to lease dated November 21, 2012, (incorporated by reference to Exhibit 4(b)(5) of Elan Corporation plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2012).
4(c)(1)	Elan Corporation, plc 1999 Stock Option Plan (2001 Amendment) (incorporated by reference to Exhibit 4(c)(1) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2001).
4(c)(2)	Elan Corporation, plc 1998 Long-Term Incentive Plan (2001 Restatement) (incorporated by reference to Exhibit 4(c)(2) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2001).
4(c)(3)	Elan Corporation, plc 1996 Long-Term Incentive Plan (2001 Restatement) (incorporated by reference to Exhibit 4(c)(3) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2001).
4(c)(4)	Elan Corporation, plc 1996 Consultant Option Plan (2001 Restatement) (incorporated by reference to Exhibit 4(c)(4) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2001).
4(c)(5)	Elan Corporation, plc Employee Equity Purchase Plan, (2012 Restatement) (incorporated by reference to Exhibit 4.4 of Elan Corporation, plc s Registration Statement on Form S-8 (Registration No. 333-181971 filed with the Commission on June 7, 2012).
4(c)(6)	Elan Corporation, plc 2004 Restricted Stock Unit Plan (incorporated by reference to Exhibit 4(c)(8) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2005).
4(c)(7)	Letter Agreement, dated as of June 8, 2009, among Elan Corporation, plc, Jack W. Schuler, Vaughn D. Bryson and Crabtree Partners L.C.C. (incorporated by reference to Exhibit 10.3 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on September 29, 2009).
4(c)(8)	Consulting Agreement, dated as of July 1, 2009, between Dr. Dennis J. Selkoe and Elan Pharmaceuticals, Inc. (incorporated by reference to Exhibit 10.4 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on September 29, 2009).
4(c)(9)	Consulting Agreement Amendment No. 1 between Dr. Dennis J. Selkoe and Elan Pharmaceuticals, Inc. made as of July 1, 2012 (incorporated by reference to Exhibit 10.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on July 5, 2012).
4(c)(10)	2012 Amended and Restated Employment Agreement, dated as of April 30, 2012, among Elan Pharmaceuticals, Inc., Elan Corporation, plc and G. Kelly Martin. (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on May 1, 2012).
4(c)(11)	July 18, 2007 Letter Agreement between Dr. Lars Ekman and Elan Pharmaceuticals, Inc. (incorporated by reference to Exhibit 4(c)(12) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2007).
4(c)(12)	Elan Corporation, plc Cash Bonus Plan effective January 1, 2006, and revised as of January 1, 2009. (incorporated by reference to Exhibit 4(c)(13) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(13)	

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Elan Corporation, plc Profit Sharing Scheme 2006 (incorporated by reference to Exhibit 4(c)(16) of Elan Corporation, plc's Annual Report on Form 20-F for the fiscal year ended December 31, 2005).



**Exhibit**

<b>Number</b>	<b>Description</b>
4(c)(14)	Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement). (incorporated by reference to Exhibit 4(c)(15) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(15)	Elan Corporation, plc 2012 Long Term Incentive Plan (incorporated by reference to Exhibit 4.4 of Elan Corporation, plc s Registration Statement on Form S-8 (Registration No. 333-181973 filed with the Commission on June 7, 2012).
4(c)(16)	Letter Agreement dated as of September 16, 2011 between Elan Corporation, plc and Shane Cooke (incorporated by reference to Exhibit 2.3 of the Report of Foreign Issuer of Elan Corporation, plc filed with the Commission on September 16, 2011).
4(c)(17)	Form of Deed of Indemnity between Elan Corporation, plc and directors and certain officers of Elan Corporation, plc (incorporated by reference to Exhibit 99.2 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on November 15, 2006).
4(c)(18)	Elan U.S. Severance Plan, amended and restated effective as of April 1, 2011 (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer of Elan Corporation, plc filed with the Commission on April 19, 2011).
4(c)(19)	Form of Memo Agreement dated May 17, 2007 amending certain outstanding grant agreements for restricted stock units and stock option agreements held by senior officers who are members of the Operating Committee of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(19) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2007).
4(c)(20)	Form of Restricted Stock Unit Agreement under the Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement) for certain senior officers who are members of the Operating Committee of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(20) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(21)	Form of Nonstatutory Stock Option Agreement under the Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement) for certain senior officers who are members of the Operating Committee of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(21) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(22)	Form of Nonstatutory Stock Option Agreement under the Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement) for new members of the Board of Directors of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(22) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(23)	Form of Nonstatutory Stock Option Agreement under the Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement) for members of the Board of Directors of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(23) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(24)	Form of Restricted Stock Unit Agreement under the Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement) for non-executive members of the Board of Directors of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(24) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(25)	Letter Agreement dated as of March 10, 2011 between Elan Pharmaceuticals, Inc. and Dr. Carlos Paya (incorporated by reference to Exhibit 10.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on March 15, 2011).
4(c)(26)	Memorandum of Understanding dated 17 September 2010 among Elan Corporation, plc, Jack Schuler and Vaughn Bryson (incorporated by reference to Exhibit 4(c)(27) of Elan Corporation plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2010).
4(c)(27)	Binding Fee Letter Dated 17 September 2010 among Elan Corporation, plc, Jack Schuler and Vaughn Bryson (incorporated by reference to Exhibit 4(c)(28) of Elan Corporation plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2010).

**Exhibit**

<b>Number</b>	<b>Description</b>
4(c)(28)	Amendment 2011-1 to Elan U.S. Severance Plan effective as of July 14, 2011 (Incorporated by reference to Exhibit 4(c)(27) of Elan Corporation's Annual Report on Form 20-F for the year ended December 31, 2011, as amended).
4(c)(29)	Chairman's Letter of Appointment dated February 9, 2011 (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on February 10, 2011).
4(c)(30)	Employment Agreement between Hans Peter Hasler and Elan Pharmaceuticals GmbH effective as of October 1, 2012 (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on October 19, 2012).
4(c)(31)	Asset Purchase Agreement, dated as of February 5, 2013, by and among Elan Pharma International Limited, Elan Pharmaceuticals, Inc. and Biogen Idec International Holding Ltd (confidential treatment has been granted for portions of this exhibit) (incorporated by reference to Exhibit 4(c)(31) of Elan Corporation plc's Annual Report on Form 20-F for the fiscal year ended December 31, 2012).
8.1	Subsidiaries of Elan Corporation, plc (incorporated by reference to Exhibit 8.1 of Elan Corporation plc's Annual Report on Form 20-F for the fiscal year ended December 31, 2012).
12.1	Certification of G. Kelly Martin pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of Nigel Clerkin pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of G. Kelly Martin pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification of Nigel Clerkin pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Consent of Independent Registered Public Accounting Firm, KPMG, (incorporated by reference to Exhibit 15.1 of Elan Corporation plc's Annual Report on Form 20-F for the fiscal year ended December 31, 2012).
101	XBRL (Extensible Business Reporting Language) The following materials from Elan's Annual Report on Form 20-F/A for the fiscal year-ended December 31, 2012, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Statements of Consolidated Comprehensive Income, (iv) Consolidated Statements of Shareholders' Equity (v) Consolidated Statements of Cash Flows, (vi) Notes to the Consolidated Financial Statements, and (vii) Schedule II Valuation and Qualifying Accounts and Reserves.

**SIGNATURES**

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this Amendment to the Annual Report on its behalf.

**Elan Corporation, plc**

/s/ NIGEL CLERKIN

Nigel Clerkin

*Executive Vice President and Chief Financial Officer*

Date: June 28, 2013