Biogen, Inc. and Subsidiaries

Selected Financial Data

Biogen, Inc. and Subsidiaries

(in thousands, except per share amounts)

Years Ended December 31,	2000	1999	1998	1997	1996
Product revenue	$ 761,079	$ 620,636	$ 394,863	$ 239,988	$ 78,202
Royalty revenue	165,373	173,799	162,724	171,921	181,502
Total revenues	926,452	794,435	557,587	411,909	259,704
Total costs and expenses	598,096	478,184	366,948	285,787	234,541
Income before income taxes	487,105	329,016	210,193	148,968	40,829
Net income	333,577	220,450	138,697	89,167	40,530
Diluted earnings per share	2.16	1.40	0.90	0.58	0.28
Cash, cash equivalents and short-term marketable securities	682,412	654,539	516,914	440,088	321,381
Total assets	1,431,856	1,277,973	924,715	813,825	634,572
Long-term debt, less current portion	47,185	52,073	56,960	61,846	62,254
Shareholders' equity	1,106,402	979,530	718,613	536,293	484,370
Shares used in calculating diluted earnings per share	154,602	157,788	154,270	152,999	146,442

Overview

Biogen, Inc. (the "Company" or "Biogen") is a biopharmaceutical company principally engaged in the business of developing, manufacturing and marketing drugs for human health care. The Company currently derives revenues from sales of its AVONEX® (Interferon beta-1a) product for the treatment of relapsing forms of multiple sclerosis ("MS"). The Company also derives revenue from royalties on worldwide sales by the Company's licensees of a number of products covered under patents controlled by the Company, including alpha interferon and hepatitis B vaccines and diagnostic products.

Results of Operations 2000 As Compared to 1999

Revenues

Total revenues in 2000 were $926.5 million, as compared to $794.4 million in 1999, an increase of $132.1 million or approximately 17%.

Product sales in 2000 were $761.1 million as compared to $620.6 million in 1999, an increase of $140.5 million or approximately 23%. Product sales from AVONEX® represent approximately 82% of the Company's total revenues in 2000 as compared to 78% in 1999. The growth in 2000 was primarily attributable to an increase in the sales volume of AVONEX® in the United States and in the fifteen member countries of the European Union ("EU"). AVONEX® sales outside of the United States were approximately $208.5 million in 2000 as compared to $178.4 million in 1999.

Revenues from royalties in 2000 were $165.4 million, a decrease of $8.4 million or approximately 5% as compared to $173.8 million of royalty revenue in 1999. Revenues from royalties represented approximately 18% of total revenues in 2000 as compared to 22% in 1999. The decrease in royalty revenues in 2000 over the comparable period in 1999 is primarily the result of reductions attributable to patent expirations and lower licensee sales. See "Outlook – Royalty Revenue" and "Outlook – Patents and Other Proprietary Rights".

In the near and long term, the Company expects to experience declining royalty revenues as a result of patent expirations, other patent-related events and a potential decrease in sales by licensees of licensed products. In the near term, Biogen's royalty revenues may also be significantly affected as a result of a dispute with Schering-Plough Corporation ("Schering-Plough") over twelve to eighteen months of royalties payable by Schering-Plough on U.S. sales of its alpha interferon products, including INTRON® A. See "Outlook – Royalty Revenue." In addition, sales levels of products sold by the Company's licensees may fluctuate from quarter to quarter due to the timing and extent of major events such as new indication approvals or government sponsored programs. For a discussion of some of the factors that may affect royalty revenues in the future, see "Outlook – Royalty Revenue" and "Outlook – Patents and Other Proprietary Rights". The Company expects product sales as a percentage of total revenues to continue to increase in the near and long term as the Company continues to market AVONEX® worldwide, and as royalty revenues continue to decline, the Company also expects sales from AVONEX® outside the United States to continue to increase as a percentage of total product sales. The Company, however, expects to face increasing competition in the MS marketplace in and outside the United States from existing and new MS treatments that may impact sales of AVONEX®. See "Outlook – Competition".

Costs and expenses

Total costs and expenses in 2000 were $598.1 million as compared to $478.2 million in 1999, an increase of approximately 25%.

Cost of revenues in 2000 totaled $125.2 million, an increase of $14.2 million or 13% as compared to 1999. The increase in cost of revenues was attributable to the higher sales volume of AVONEX®. Included in cost of revenues in 2000 and 1999 is $112.9 million and $96.9 million, respectively, from product sales and $12.3 million and $14.1 million, respectively, relating to royalty revenue. Gross margins on product sales increased to approximately 85% for the period ended December 31, 2000 compared to 84% for the same period in 1999. Gross margins on royalty revenue increased to approximately 93% for the period ended December 31, 2000 compared to 92% for the same period in 1999. The Company expects that gross margins on royalty revenue will fluctuate in the future based on changes in sales volumes for specific products.

Research and development expenses in 2000 were $302.8 million, an increase of $81.6 million or 37% as compared to $221.2 million in 1999. The increase was primarily due to an increase in clinical trial costs of $35.9 million, the costs associated with an increase in the Company's other development efforts related to its ongoing research and development programs of $14 million and the funding of collaboration agreements of $12.4 million. The Company expects that, in the near and long-term, research and development expenses will increase as the Company continues to expand its development efforts with respect to new products, conducts clinical trials of these products and continues work on new formulations and delivery methods for AVONEX®.

Selling, general and administrative expenses in 2000 were $170.1 million, an increase of $24.1 million or 17% as compared to 1999. This increase was primarily due to an increase in selling and marketing expenses related to the sale of AVONEX®. The Company expects

that selling, general and administrative expenses will continue to increase in the near term as the Company continues to expand its sales and marketing organizations necessary to sell AVONEX® worldwide and as the Company expands in anticipation of additional products.

Other income, net

Other income, net consists of interest income, partially offset by interest expenses and other non-operating income and expenses. Other income, net in 2000 was $158.7 million as compared to $12.8 million in 1999, an increase of $145.9 million. Interest income in 2000 was $43 million compared $35.4 million in 1999, an increase of $7.6 million or 21% due to higher average yields and an increase in funds invested. The Company expects interest income to vary based on changes in the amount of funds invested and fluctuations in interest rates. Interest expense decreased $0.3 million or 7% in 2000 from 1999. Other income (expense) increased by $138.1 million in 2000 from 1999. Other income (expense) for the period ended December 31, 2000 included gains on the sale of certain non-current marketable securities totaling approximately $101.1 million. Additionally, the Company realized gains of approximately $24.1 million upon the acquisition of two of its investees by third parties. Other income (expense) for the period ended December 31, 1999 included a $15 million write-down of certain non-current marketable securities.

Other income, net consists of the following (in thousands):

December 31,	2000	1999
Interest income	$ 42,965	$ 35,407
Interest expense	(4,310)	(4,639)
Other income (expense)	120,094	(18,003)
Total other income, net	$ 158,749	$ 12,765

Income taxes

The Company's effective tax rate in 2000 was 31.5%. Income tax expense for 2000 varied from the amount computed at the U.S. federal statutory rates primarily due to higher sales in European jurisdictions with lower tax rates and to the utilization of research and development tax credits. The Company's effective tax rate outside the U.S. is lower than the U.S. tax rate, and the Company expects that the U.S. tax rate will decline as a percentage of its total tax rate as international sales increase.

Results of Operations 1999 As Compared to 1998

Revenues

Total revenues in 1999 were $794.4 million, as compared to $557.6 million in 1998, an increase of $236.8 million or approximately 42%.

Product sales in 1999 were $620.6 million as compared to $394.9 million in 1998, an increase of $225.7 million or approximately 57%. Product sales from AVONEX® represent approximately 78% of the Company's total revenues in 1999 as compared to 71% in 1998. The growth in 1999 was primarily attributable to an increase in the sales volume of AVONEX® in the United States and in the fifteen member countries of the European Union ("EU"). AVONEX® sales outside of the United States were approximately $178.4 million in 1999 as compared to $92 million in 1998.

Revenues from royalties in 1999 were $173.8 million, an increase of $11.1 million or approximately 7% as compared to $162.7 million of royalty revenue in 1998. Revenues from royalties represented approximately 22% of total revenues in 1999 as compared to 29% in 1998. The increase in royalty revenues in 1999 over the comparable period in 1998 is primarily the result of royalties received on increased sales of alpha interferon.

Costs and expenses

Total costs and expenses in 1999 were $478.2 million as compared to $366.9 million in 1998, an increase of approximately 30%.

Cost of revenues in 1999 totaled $111 million, an increase of $36.5 million or 49% as compared to 1998. The increase in cost of revenues was attributable to the higher sales volume of AVONEX®. Included in cost of revenues in 1999 and 1998 is $96.9 million and $62.1 million, respectively, from product sales and $14.1 million and $12.4 million, respectively, relating to royalty revenue. Gross margins on product sales remained constant at approximately 84% for the period ended December 31, 1999 compared to the same period in 1998. Gross margins on royalty revenue remained constant at approximately 92% for the period ended December 31, 1999 compared to the same period in 1998.

Research and development expenses in 1999 were $221.2 million, an increase of $44 million or 25% as compared to $177.2 million in 1998. The increase was primarily due to an increase in clinical trial costs, the costs associated with an

increase in the Company's other development efforts related to its ongoing research and development programs and the funding of collaboration agreements.

Selling, general and administrative expenses in 1999 were $146 million, an increase of $30.8 million or 27% as compared to 1998. This increase was primarily due to an increase in selling and marketing expenses related to the sale of AVONEX®.

Other income, net

Other income, net consists primarily of interest income, partially offset by interest expenses and other non-operating income and expenses. Other income, net in 1999 was $12.8 million as compared to $19.6 million in 1998, a decrease of $6.8 million or approximately 35%. Interest income in 1999 was $35.4 million compared to $28.3 million in 1998, an increase of $7.1 million or 25% due to an increase in funds invested. Interest expense decreased $1.3 million or 22% in 1999 from 1998. Other expense increased by $15.2 million in 1999 from 1998, due primarily to a $15 million write-down related to certain non-current marketable securities in the second quarter of 1999.

As part of its strategic product development efforts, the Company invests in equity securities of certain biotechnology companies with which it has collaborative agreements. In December of 1996, Biogen purchased approximately 1.5 million shares of Creative BioMolecules, Inc. common stock for $18 million. In March of 1997, Biogen purchased approximately 670,000 shares of CV Therapeutics, Inc. common stock for $7 million. In March of 1998, the Company purchased approximately 435,000 shares of CuraGen common stock for $5 million and converted 100,000 shares of CuraGen Series E Preferred Stock valued at $1 million to CuraGen common stock. Each of these small emerging companies is principally engaged in researching, developing or manufacturing drugs for human health care.

As a matter of policy, Biogen determines on a quarterly basis whether a decline in the fair value of a marketable security is other than temporary. Unrealized gains and losses on marketable securities are included in other comprehensive income in shareholders' equity, net of related tax effects. If a decline in the fair value of a marketable security below the Company's cost basis is determined to be other than temporary, such marketable security is written down to its estimated fair value with a charge to current earnings.

Up through and including the assessment at June 30, 1999, the Company concluded that substantial evidence existed suggesting that the value of the investments described above would recover to at least the Company's purchase price. Such evidence included the prospects for favorable clinical trial results, new product initiatives and new collaborative agreements. However, given the lack of any substantial price recovery during the quarter ended June 30, 1999, and the amount of time elapsed since the decline in value began, the Company concluded that it had become unclear over what period such price recovery would take place. As a result, it was determined that the positive evidence suggesting that the investments would recover to at least the Company's purchase price was not sufficient to overcome the presumption that the current market price of the investments was the best indicator of value at June 30, 1999. Accordingly, the related unrealized losses of approximately $15 million were recognized as other expense in the second quarter of 1999.

Income taxes

The Company's effective tax rate in 1999 was 33%. Income tax expense for 1999 varied from the amount computed at the U.S. federal statutory rates primarily due to increased European sales and to the utilization of research and development tax credits. The Company's effective tax rate outside the U.S. is lower than the U.S. tax rate.

Financial Condition

At December 31, 2000, cash, cash equivalents and short-term marketable securities were $682.4 million compared with $654.5 million at December 31, 1999, an increase of $27.9 million. Working capital decreased $12.7 million to $707.3 million. Net cash from operating activities for the year ended December 31, 2000 was $365.9 million compared with $363.6 million in 1999. Cash outflows from investing activities during 2000 included investments in property and equipment and patents of $199.1 million and investments in collaborative partners of $5 million. Net cash inflows from investing activities related to marketable securities was $99.1 million. Significant cash outflows from financing activities included $300.2 million for purchases of the Company's common stock under its stock repurchase program and $4.9 million for repayments on loan agreements with banks. Cash inflows from financing activities included $36 million from common stock option exercises and employee stock purchase plan activity.

In August 1995, the Company entered into a loan agreement with a bank for financing the construction of its biological manufacturing facility in North Carolina (the "Construction Loan"). During 1997, the Company completed construction of the facility and the funds advanced under the Construction Loan were converted to a floating rate ten-year term loan with principal and interest payable quarterly. As of December 31, 2000, the Company had $36.2 million outstanding under the Construction Loan. The Construction Loan is secured by the underlying building. The Company also entered into an interest rate swap agreement with the same bank, fixing its interest rate on

the Construction Loan at 7.75% during the remaining term of the loan with interest payable quarterly. In addition, as of December 31, 2000, the Company had $15.8 million outstanding under a floating rate loan with a bank (the "Term Loan"). The Term Loan is secured by the Company's laboratory and office building in Cambridge, Massachusetts. The Company has fixed its interest rate on the Term Loan at 7.5% under the terms of an interest rate swap agreement. Terms of the Company's loan agreements include various covenants, including financial covenants which require the Company to maintain minimum net worth, cash flow and various financial ratios.

On December 18, 2000, the Company announced that its Board of Directors had authorized the repurchase of up to 4 million shares of the Company's common stock. The repurchased stock will provide the Company with treasury shares for general corporate purposes, such as stock to be issued under employee stock option and stock purchase plans. Stock purchases are expected to occur from time to time through 2001. The stock repurchase program may be discontinued at any time. In November of 2000, the Company completed a previous stock repurchase program. During 2000, the Company repurchased approximately 4.6 million shares of its common stock under this program at a cost of $300.2 million.

On October 4, 1999, the Company began construction of its new research and development center in Cambridge, Massachusetts. The new 224,000 square foot building is expected to be completed in the spring of 2001 at a total cost of approximately $95 million, of which $81.4 million had been committed at December 31, 2000. Additionally, the Company is completing plans to build a large scale manufacturing plant in Raleigh, North Carolina. The Company expects that construction will be completed at the end of 2001 at a total cost of approximately $175 million of which $141.9 million had been committed at December 31, 2000.

In September 2000, the Company signed a research and development agreement (the "Eos Agreement") with Eos Biotechnology, Inc. ("Eos"), under which the Company and Eos will collaborate in the research and development of novel targets for antibody and protein therapeutics in the area of breast cancer. Under the Eos Agreement, the Company purchased 1.9 million shares of preferred stock of Eos for $5 million. In addition, the Company paid a one-time, non-refundable license fee of $6 million, which was charged to research and development expense and acquired certain exclusive, worldwide rights related to breast cancer-specific molecules for the use in the development of new antibody and secreted protein therapeutics. The Company accounts for its investment in Eos, which is included in other assets, using the cost method of accounting. The Company provided Eos with research and development funding of $250,000 in 2000. The Company expects to fund research activities of Eos related to the collaboration of up to $1.5 million in 2001.

In August 2000, the Company signed a development and marketing collaboration agreement (the "Antegren Agreement") with Elan Corporation, plc ("Elan") under which the Company and Elan collaborate in the development, manufacture and commercialization of ANTEGREN®, a humanized monoclonal antibody and alpha 4 integrin inhibitor. Under the terms of the Antegren Agreement, Biogen and Elan will share costs for on-going development activities. The Company paid a one-time, non-refundable license fee of $15 million, which was charged to research and development expense.

In October 1997, the Company signed a research and option agreement (the "CuraGen Agreement") with CuraGen Corporation ("CuraGen") under which the Company and CuraGen collaborate in the discovery of novel genes using CuraGen's functional genomics technologies. The Company provided CuraGen with research and development funding of $1.5 million, $1.1 million and $1.9 million in 2000, 1999 and 1998, respectively. The Curagen Agreement was terminated in September 2000 and all investments in CuraGen common stock were sold during 2000.

In March 1997, the Company signed a research collaboration and license agreement (the "CVT Agreement") with CV Therapeutics, Inc. ("CVT") under which Biogen obtained rights under CVT's patents and know-how to develop and market molecules that act as highly selective antagonists of the adenosine A_1 receptor, for the treatment of congestive heart failure. Under the terms of the CVT Agreement, the Company purchased approximately 670,000 shares of CVT common stock at the then fair value for $7 million and paid a one-time license fee of $5 million, which was charged to research and development expense. The investment in CVT is classified as available-for-sale and is included in long-term marketable securities. At December 31, 2000 the Company retained approximately 670,000 shares of CVT common stock.

In December 1996, the Company signed a research collaboration and license agreement (the "CBM Agreement") with Creative BioMolecules, Inc. ("CBM") under which Biogen obtained rights to develop and market CBM's morphogenic protein, OP-1, for the treatment of renal disorders. Under the CBM Agreement, the Company purchased 1.5 million shares of CBM common stock for $18 million. The payment for the common stock included a $1.2 million premium over the fair value of the common stock which was charged to research and development expense. The Company provided $10 million in research and development funding, which was charged to expense as provided in 1998. The CBM Agreement terminated at the end of 1999 and all investments in CBM common stock were sold during 2000.

In July 1996, the Company signed a collaborative research and commercialization agreement (the "Ontogeny Agreement") with Ontogeny, Inc. ("Ontogeny"), a private biotechnology company, for the development and commercialization of three specific hedgehog cell proteins, a class of novel human proteins, that are responsible for reducing the formation or regeneration of tissue. Under the Ontogeny

Agreement, the Company purchased 400,000 shares of preferred stock of Ontogeny for $1 million and acquired certain exclusive, worldwide rights related to products based on the hedgehog proteins for most disease areas. In November 1998, the Company extended and expanded its collaboration with Ontogeny and provided to Ontogeny a $4 million convertible loan. In June 1999, the loan was converted into 800,000 shares of Ontogeny Convertible Preferred Stock. The Ontogeny Agreement was terminated in July 2000. In August 2000, Ontogeny merged with two other biotechnology companies to form Curis Inc. ("Curis"). As a shareholder in Ontogeny, Biogen received Curis common stock in exchange for the Company's shares in Ontogeny. The Company provided $1 million, $2.8 million and $3.6 million of research funding to Ontogeny in 2000, 1999 and 1998, respectively. Additionally, the Company provided $1.5 million upon conclusion of the Ontogeny Agreement, which was charged to research and development expense. At December 31, 2000 the investment in Curis is classified as available-for-sale and is included in long-term marketable securities. At December 31, 2000 the Company retained approximately 308,000 shares of Curis common stock.

In August 1995, the Company signed a collaborative research agreement (the "Genovo Agreement") for the development of human gene therapy treatments with Genovo, Inc. ("Genovo"), a gene therapy research company. Under the Genovo Agreement, the Company acquired 380,000 shares of Genovo Series A Preferred Stock for $4.5 million and acquired certain licensing rights. The Company accounted for this investment, which was included in other assets, using the equity method of accounting. The Company recorded its proportion of Genovo's net losses as research and development expense in the amounts of $3.9 million, $7.6 million, and $9 million in 2000, 1999, and 1998, respectively. In August 2000, Genovo entered into a merger agreement ("Targeted Merger Agreement") with Targeted Genetics Corporation ("Targeted"). As a shareholder in Genovo, Biogen received Targeted common stock in exchange for the Company's shares in Genovo. Additionally, concurrently with the Targeted Merger Agreement, the Company entered into a development and marketing agreement and a funding agreement (the "Targeted Agreements") for gene therapy research and development in oncology. The Targeted Agreements provide for a $10 million credit facility. Targeted also has an option to sell to the Company an additional $10 million of Targeted common stock at fair value. As of December 31, 2000, there were no borrowings outstanding under the credit facility and the Company provided $250,000 in research funding to Targeted in 2000.

The Company believes that existing funds and cash generated from operations are adequate to satisfy its working capital and capital expenditure requirements in the foreseeable future. However, the Company may raise additional capital to take advantage of favorable conditions in the market or in connection with the Company's development activities.

Legal Matters

On July 3, 1996, Berlex Laboratories, Inc. ("Berlex") filed suit against Biogen in the United States District Court for the District of New Jersey alleging infringement by Biogen of Berlex's "McCormick" patent (U.S. Patent No. 5,376,567) in the United States in the production of Biogen's AVONEX® (Interferon beta-1a) product. In November 1996, Berlex's New Jersey action was transferred to the United States District Court in Massachusetts and consolidated for pre-trial purposes with a related declaratory judgment action previously filed by Biogen. On August 18, 1998, Berlex filed a second suit against Biogen alleging infringement by Biogen of a patent which was issued to Berlex in August 1998 and which is related to the McCormick patent (U.S. Patent No. 5,795,779). On September 23, 1998, the cases were consolidated for pre-trial and trial purposes. Berlex sought a judgment granting it damages, a trebling of any damages awarded and a permanent injunction restraining Biogen from the alleged infringement. A hearing on the parties' summary judgment motions in the case was completed in March 2000. In September 2000, the District Court rendered final judgment in favor of Biogen and against Berlex determining that Biogen's production of AVONEX® did not infringe any of the claims of the Berlex patents. Berlex has appealed this decision with the Court of Appeals for the Federal Circuit and the parties are in the process of briefing the appeal for oral argument. An unfavorable ruling on appeal would result in the case being remanded to the District Court for trial. If Berlex were to be successful in its appeal and the case were remanded, an unfavorable ruling in the remanded case could have a material adverse effect on the Company's results of operations and financial position. The Company believes that the decision of the District Court that Biogen does not infringe the Berlex patents is sound, but the ultimate outcome of the appeal is not currently determinable. As a result, an estimate of any potential loss or range of loss cannot be made at this time.

In 1995, the Company filed an opposition with the Opposition Division of the European Patent Office to oppose a European patent (the "Rentschler I Patent") issued to Dr. Rentschler Biotechnologie GmbH ("Rentschler") relating to compositions of matter of beta interferon. In 1997, the European Patent Office issued a decision to revoke the Rentschler I Patent. Rentschler appealed that decision and an oral hearing on the appeal took place in December 2000. At the oral hearing in order to gain reinstatement of the patent, Rentschler narrowed the patent claims so as to claim only a specific cell line. Biogen does not use the specific cell line now claimed. On October 13, 1998, the Company filed another opposition with the Opposition Division of the European Patent Office to oppose a second European patent issued to Rentschler (the "Rentschler II Patent") with certain claims regarding compositions of matter of beta interferon with specific regard to the structure of the glycosylated molecule. A hearing on the Company's opposition previously scheduled for October 2000 has been

postponed, and will likely be held in 2001. While Biogen believes that the Rentschler II Patent will be revoked and that the revocation of the Rentschler I Patent will be upheld on appeal, if either the Rentschler I Patent or the Rentschler II Patent were to be upheld and if Rentschler were to obtain, through legal proceedings, a determination that the Company's sale of AVONEX® in Europe infringes a valid Rentschler patent, such result could have a material adverse effect on the Company's results of operation and financial position.

New Accounting Pronouncement

In December 1999, the United States Securities and Exchange Commission issued Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues, as well as examples of how the staff applies revenue recognition guidance to specific circumstances. The Company adopted SAB 101 in 2000. Adoption of SAB 101 did not have a material effect on the Company's financial position and results of operations.

Outlook

Safe Harbor Statement under Private Securities Litigation Reform Act of 1996

In addition to historical information, this annual report contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Reference is made in particular to forward-looking statements regarding the anticipated level of future product sales, royalty revenues, expenses and profits, statements regarding the timing of clinical trials, statements regarding the potential outcome of clinical programs, the marketing of additional products and predictions as to the anticipated outcome of pending or anticipated litigation, arbitration and patent-related proceedings and the Company's expectations as to the value of its investments in certain marketable securities. These and all other forward-looking statements are made based on the Company's current belief as to the outcome and timing of such future events. Factors which could cause actual results to differ from the Company's expectations and which could negatively impact the Company's financial condition and results of operations are discussed below.

Dependence on AVONEX® Sales

The Company's ability to sustain increases in revenues and profitability for the next several years will be primarily dependent on the level of revenues and profitability from AVONEX® sales. The Company's ability to sustain profitability from sales of AVONEX® will depend on a number of factors, including: continued market acceptance of AVONEX® worldwide; the Company's ability to maintain a high level of patient satisfaction with AVONEX®; the nature of regulatory and pricing decisions related to AVONEX® worldwide; the extent to which AVONEX® continues to receive reimbursement coverage; the impact of competitive products; and the impact of adverse decisions in patent-related proceedings. The extent of the profitability from AVONEX® sales is also dependent on the successful resolution of the Berlex suit, which is described above under "Legal Matters".

Competition

The Company faces increasing competition from other products for the treatment of relapsing forms of MS. As a treatment for multiple sclerosis, AVONEX® competes with interferon beta-1b which is sold in the United States under the brand name Betaseron® by Berlex Laboratories, a United States affiliate of Schering AG, and is sold in Europe under the brand name Betaferon® by Schering AG. AVONEX® also faces competition from Copaxone® glatiramer acetate (also known as copolymer-1). In the United States, Copaxone® is marketed by a partnership between Teva Pharmaceutical Industries, Ltd. and Hoechst Marion Roussel, Inc. In most countries outside of the United States, AVONEX® also competes with Rebif®, a recombinant interferon beta-1a product sold by Serono. In response to an application from Serono for approval of Rebif® in the United States for relapsing multiple sclerosis, the FDA, in March 1999, upheld its earlier ruling that, based on the data from existing clinical trials, Serono cannot market Rebif® in the United States for relapsing multiple sclerosis while the orphan drug status afforded to AVONEX® and Betaseron® for that indication is still in effect. AVONEX®'s orphan drug status for relapsing forms of the disease expires in 2003. The ruling by the FDA prompted Serono in 2000 to initiate a 12-month head-to-head study of Rebif® and AVONEX® to determine if Serono can show whether Rebif® is clinically superior to AVONEX®. If positive, Serono will most likely use the results of this study in its attempts to overcome the orphan drug status of AVONEX® and to get Rebif® approved before expiration of AVONEX's orphan drug status. Biogen expects Serono to release the results of the study in the third quarter of 2001. AVONEX® also competes in the United States with Novantrone® (mitoxantrone for injection) which is produced and marketed by Immunex Corporation, a majority-owned subsidiary of American Home Products Corporation. Novantrone® is approved for use in patients with clinically worsening forms of relapsing-remitting and secondary progressive multiple sclerosis.

A number of other companies are working to develop products to treat multiple sclerosis which may in the future compete with AVONEX®, the worldwide market leader among multiple sclerosis therapies. AVONEX® may also in the future face competition from off-label uses of drugs approved for other indications. Biogen believes that competition among treatments for multiple sclerosis will be based on product performance, service and price.

Royalty Revenue

The Company receives royalty revenues which contribute to its overall profitability. The Company expects to continue to experience a decline in royalty revenues as a result of patent expirations and other patent-related events in the range of up to approximately $10 million per quarter for 2001 (not including amounts that are subject to a dispute with Schering-Plough as discussed below). See "Outlook – Patents and Other Proprietary Rights." The Company expects the most significant decline to be in the amount of royalties received from Schering-Plough on sales of INTRON® A as the result of patent expirations in the EU and Japan. The extent of the decline in royalties related to United States sales of INTRON® A will depend on the outcome of a dispute with Schering-Plough related to its royalty obligations. Schering-Plough has taken the position that a Court of Appeal's decision affirming a District Court's ruling which narrowed the scope of the claims of Biogen's United States alpha interferon patent has caused the patent to no longer cover Schering-Plough's alpha interferon products, and, that, as a result, Schering-Plough no longer has an obligation to pay royalties under that patent. Until expiration of Biogen's EU (Irish) patent in January 2001, Schering-Plough continued to pay royalties on sales of product in the United States based on manufacture of the product in Ireland. Biogen is currently in discussions with Schering-Plough to work to resolve the royalty issue and to resolve claims by Biogen related to underpayment of royalties by Schering-Plough. In any event, commencing in July 2002, Schering-Plough is obligated to pay royalties on sales of its alpha interferon products in the U.S., including INTRON®A, during the term of a certain Roche/Genentech U.S. alpha interferon patent right under an agreement between Biogen and Schering-Plough in connection with settlement of a lawsuit with Roche/Genentech related to the Roche/Genentech patent right. Biogen intends to vigorously oppose any attempt by Schering-Plough to discontinue payment of royalties. If the dispute with Schering-Plough results in arbitration and Schering-Plough were to prevail in the arbitration, the resulting decline in royalties on United States sales of alpha interferon products could range up to approximately an additional $10 million per quarter in the eighteen month period.

There are a number of other factors which could also cause the actual level of royalty revenue to differ from the Company's expectations. For example, pricing reforms, health care reform initiatives, other legal and regulatory developments and the introduction of competitive products may have an impact on product sales by the Company's licensees. In addition, sales levels of products sold by the Company's licensees may fluctuate from quarter to quarter due to the timing and extent of major events such as new indication approvals or government sponsored programs. Since the Company is not involved in the development or sale of products by its licensees, the Company can not be certain of the timing or potential impact of factors which may affect sales by the Company's licensees. In the long term, the Company expects its royalty revenue to be affected most significantly by patent expirations and a potential decrease in sales by licensees of licensed products. See "Outlook - Patents and Other Proprietary Rights."

Patents and Other Proprietary Rights

The Company has numerous issued patents and patent applications pending on a number of its processes and products. The Company has also obtained rights to certain patents under licenses with third parties which provide for the payment of royalties. There can be no assurances that Biogen's existing patents or others, if obtained, will be of substantial protection or commercial benefit to Biogen. In addition, it is not known to what extent Biogen's pending patent applications or patent applications licensed from third parties will be granted or whether any of the Company's patents will prevail if they are challenged in litigation. There is also no assurance that third parties have not or will not be granted patents claiming subject matter necessary to Biogen's business.

Biogen has granted an exclusive worldwide license to Schering-Plough under Biogen's alpha interferon patents. Schering-Plough's royalty obligation to Biogen on sales of Schering-Plough's INTRON® A brand of alpha interferon in Japan and Europe terminated upon expiration of Biogen's alpha interferon patent in such territories in January 2001, except in France and Italy where Biogen has obtained supplemental protection certificates extending the coverage in France until 2003 and in Italy until 2007. In 2000, a Court of Appeals decision affirmed a District Court's decision narrowing the scope of Biogen's United States alpha interferon patents. For a discussion of a dispute with Schering-Plough over the implications of the decision on the amount of royalties owed to Biogen on sales of alpha interferon products in the United States, see "Outlook – Royalty Revenue". In consideration of assignment to Schering-Plough by Biogen of a Biogen patent application claiming recombinant mature human alpha interferon, Schering-Plough has agreed to pay to Biogen certain sums on sales by Schering-Plough of alpha interferon products in the United States from the date when Biogen's existing United States alpha interferon patent expires (i.e. July 2002) until expiration of an alpha interferon patent expected to be issued to Hoffman-LaRoche Inc. ("Roche") and Genentech, Inc. ("Genentech"). The Roche/Genentech patent was the subject of a lawsuit brought by Biogen which was ultimately settled. Schering-Plough entered into an agreement with Roche as part of the settlement.

Biogen has licensed its recombinant hepatitis B antigen patent rights to manufacturers and marketers of hepatitis B vaccines and diagnostic test kits, and receives royalties on sales of the vaccines and test kits by its licensees. The obligation of GlaxoSmithKline plc and Merck & Co., Inc. to pay royalties on sales of hepatitis B vaccines and the obligation of Biogen's other licensees under its hepatitis B patents to pay royalties on sales of diagnostic products will terminate upon expiration of Biogen's existing hepatitis B patents. Biogen's existing United States hepatitis B patents will expire in 2004. Biogen's European hepatitis B patents expired at the end of 1999, except in those countries in which Biogen has or is able to obtain supplementary protection certificates. To date, Biogen has received supplementary protection certificates in Austria, Belgium, France, Great Britain, Ireland, Italy, Luxembourg, The Netherlands, Sweden, and Switzerland, and has a number of granted or pending registrations of the Great Britain supplementary protection certificates in various British Territories. The additional coverage afforded by the supplementary protection certificates, or related registrations, ranges from two to eight years. There can be no assurance as to the extent of coverage available under the supplementary protection certificates, or that protection will be available in additional countries.

In 1994, Biogen granted Eli Lilly and Company ("Lilly") a non-exclusive license under certain patents for gene expression. Under the license, Biogen has received royalties from Lilly since 1994 on products which use the patented vectors and methods. Based on a District Court's claims construction decision in an infringement action brought by Biogen against Amgen, Inc. involving the same patents as are licensed to Lilly, Lilly recently notified Biogen that Lilly believes that it no longer owes royalties to Biogen under the agreement on any of its products.

There has been, and Biogen expects that there may continue to be significant litigation in the industry regarding patents and other intellectual property rights. Such litigation could create uncertainty and consume substantial resources. See also "Legal Matters".

Products

AVONEX® is currently the only product sold by the Company. The Company's long-term viability and growth will depend on the successful development and commercialization of other products from its research activities and collaborations. The Company continues to expand its development efforts related to other potential products in its pipeline. The expansion of the pipeline may include increases in spending on internal projects, the acquisition of third-party technologies or products or other types of investments. Product development involves a high degree of risk. Only a small number of research and development programs result in the commercialization of a product. Success in preclinical and early clinical trials does not ensure that later stage or large scale clinical trials will be successful. Many important factors affect the Company's ability to successfully develop and commercialize drugs, including the ability to obtain and maintain necessary patents and licenses, to demonstrate safety and efficacy of drug candidates at each stage of the clinical trial process, to overcome technical hurdles that may arise, to meet applicable regulatory standards and to receive required regulatory approvals, to be capable of producing drug candidates in commercial quantities at reasonable costs, to compete successfully against other products and to market products successfully. There can be no assurance that the Company will be successful in its efforts to develop and commercialize new products.

Market Risk

The Company has exposure to financial risk in several areas including changes in foreign exchange rates and interest rates. The Company attempts to minimize its exposures by using certain financial instruments, for purposes other than trading, in accordance with the Company's overall risk management guidelines. Further information regarding the Company's accounting policies for financial instruments and disclosures of financial instruments can be found in Notes 1, 2 and 3 to the Company's Consolidated Financial Statements.

Foreign Exchange

The Company has operations in several European countries in connection with the sale of its product AVONEX®. The Company also receives royalty revenues based on worldwide product sales by its licensees. As a result, the Company's financial position, results of operations and cash flows can be affected by fluctuations in foreign currency exchange rates (primarily the Euro, British pound, Japanese yen and Canadian dollar).

The Company uses foreign currency forward contracts to manage foreign currency risk and does not engage in currency speculation. The Company uses these forward contracts to hedge certain forecasted transactions denominated in foreign currencies. A hypothetical adverse 10% movement in foreign exchange rates compared to the U.S. dollar across all maturities would result in a hypothetical loss in fair value of approximately $11 million. The Company's use of this methodology to quantify the market risk of such instruments should not be construed as an endorsement of its accuracy or the accuracy of the related assumptions. The quantitative information about market risk is necessarily limited because it does not take into account operating transactions.

Interest Rates

The Company is exposed to risk of interest rate fluctuations in connection with its variable rate long-term debt. The Term Loan requires annual principal payments of $1.7 million through 2004, with the balance due in 2005. The Construction Loan requires annual principal payments of $3.2 million through 2006, with the balance due in 2007. At December 31, 2000, the carrying values of the Term Loan and the Construction Loan approximated fair value.

The Company has fixed its interest rates on the Term Loan and Construction Loan by entering interest rate swap agreements under which the Company exchanges the difference between 7.5% and 7.75%, respectively, and a floating rate. The notional principal balances on the interest rate swap agreements are exactly equal to the principal on the underlying debt agreements. All other relevant terms of the interest rate swap agreements (including the index rate, reset period, etc.) exactly match the underlying loan agreements. The fair value of the interest rate swap agreements at December 31, 2000, representing the cash requirements of the Company to settle the agreements, was approximately $1.7 million. Terms of the Company's loan agreements include various covenants, including financial covenants which require the Company to maintain minimum net worth, cash flow and various financial ratios.

The fair value of the Company's cash, cash equivalents, marketable securities, long-term debt and interest rate swap agreements are subject to change as a result of potential changes in market interest rates. The potential change in fair value for interest rate sensitive instruments has been assessed on a hypothetical 100 basis point adverse movement across all maturities. The Company estimates that such hypothetical adverse 100 basis point movement would not have materially impacted net income or materially affected the fair value of interest rate sensitive instruments.

Stock Price

The stock prices of biotechnology companies are subject to significant fluctuations. The stock price may be affected by a number of factors including, but not limited to clinical trial results and other product development events, the outcome of litigation, the financial impact of changes in the value of investments, including investments in other biotechnology companies, the decisions relating to intellectual property rights and the entrance of competitive products into the market, changes in reimbursement policies or other practices related to the pharmaceutical industry or other industry and market changes or trends. In addition, if revenues or earnings in any quarter fail to meet the investment community's expectations, there could be an immediate adverse impact on the Company's stock price.

Consolidated Statements of Income

Biogen, Inc. and Subsidiaries

(in thousands, except per share amounts)

For the years ended December 31,	**2000**	**1999**	**1998**
Revenues:			
Product	**$ 761,079**	$ 620,636	$ 394,863
Royalties	**165,373**	173,799	162,724
Total revenues	**926,452**	794,435	557,587
Costs and expenses:			
Cost of revenues	**125,198**	111,005	74,509
Research and development	**302,840**	221,153	177,228
Selling, general & administrative	**170,058**	146,026	115,211
Total costs and expenses	**598,096**	478,184	366,948
Income from operations	**328,356**	316,251	190,639
Other income, net	**158,749**	12,765	19,554
Income before income taxes	**487,105**	329,016	210,193
Income taxes	**153,528**	108,566	71,496
Net Income	**$ 333,577**	$ 220,450	$ 138,697
Basic earnings per share	**$ 2.24**	$ 1.47	$ 0.94
Diluted earnings per share	**$ 2.16**	$ 1.40	$ 0.90
Shares used in calculating:			
Basic earnings per share	**148,743**	149,921	147,537
Diluted earnings per share	**154,602**	157,788	154,270

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Biogen, Inc. and Subsidiaries

(in thousands, except share amounts)

As of December 31	2000	1999
Assets		
Current assets		
Cash and cash equivalents	**$ 48,737**	$ 56,920
Marketable securities	**633,675**	597,619
Accounts receivable, less allowances of $2,436 and $1,642, respectively	**143,178**	137,363
Deferred tax assets	**40,047**	50,565
Other current assets	**62,634**	67,759
Total current assets	**928,271**	910,226
Property and equipment, net	**400,429**	239,777
Patents	**13,510**	13,871
Marketable securities	**71,982**	98,017
Other assets	**17,664**	16,082
	$ 1,431,856	$ 1,277,973
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	**$ 37,869**	$ 30,125
Current portion of long-term debt	**4,888**	4,888
Accrued expenses and other	**178,264**	155,257
Total current liabilities	**221,021**	190,270
Long-term debt, less current portion	**47,185**	52,073
Other long-term liabilities	**57,248**	56,100
Commitments and contingencies	**—**	—
Shareholders' equity		
Common stock, par value $0.01 per share (375,000,000 shares authorized; 151,705,636 and 150,684,586 shares issued in 2000 and 1999, respectively)	**1,517**	1,507
Additional paid-in capital	**772,172**	676,673
Retained earnings	**543,913**	352,016
Accumulated other comprehensive income	**22,376**	45,618
Treasury stock, at cost, 3,882,979 and 669,651 shares in 2000 and 1999, respectively	**(233,576)**	(96,284)
Total shareholders' equity	**1,106,402**	979,530
	$ 1,431,856	$ 1,277,973

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Biogen, Inc. and Subsidiaries

(in thousands)

For the years ended December 31,	2000	1999	1998
Cash Flows from Operating Activities			
Net Income	**$ 333,577**	$ 220,450	$ 138,697
Adjustments to reconcile net income to net cash provided from operating activities			
Depreciation and amortization	**38,824**	31,099	24,590
Other	**(569)**	5,162	(888)
Deferred income taxes	**25,203**	(23,981)	7,486
Gain on sale of non-current marketable securities	**(101,129)**	—	—
Tax benefit of stock options	**81,023**	91,295	19,595
Write-down of non-current marketable securities	**—**	15,287	—
Changes in:			
Accounts receivable	**(5,815)**	(36,082)	(14,479)
Other current and other assets	**(35,329)**	(41,372)	(25,638)
Accounts payable, accrued expenses and other current and long-term liabilities	**30,154**	101,725	38,077
Net cash flows from operating activities	**365,939**	363,583	187,440
Cash Flows from Investing Activities			
Purchases of marketable securities	**(627,168)**	(1,120,218)	(574,021)
Proceeds from sales and maturities of marketable securities	**606,087**	1,006,465	453,952
Proceeds from sales of non-current marketable securities	**120,199**	—	—
Investment in collaborative partners	**(5,000)**	(10,000)	(5,000)
Acquisitions of property and equipment	**(194,402)**	(82,528)	(29,049)
Additions to patents	**(4,713)**	(3,799)	(4,562)
Net cash flows from investing activities	**(104,997)**	(210,080)	(158,680)
Cash Flows from Financing Activities			
Repayments on note payable	**—**	—	(24,817)
Repayments on long-term debt	**(4,888)**	(4,887)	(4,886)
Purchases of treasury stock	**(300,192)**	(197,717)	(65,550)
Proceeds from put warrants	**—**	22,086	—
Issuance of common stock and option exercises	**35,955**	58,490	21,580
Net cash flows from financing activities	**(269,125)**	(122,028)	(73,673)
Net increase (decrease) in cash and cash equivalents	**(8,183)**	31,475	(44,913)
Cash and cash equivalents, beginning of the year	**56,920**	25,445	70,358
Cash and cash equivalents, end of the year	**$ 48,737**	$ 56,920	$ 25,445
Supplemental Cash Flow Data			
Cash paid during the year for:			
Interest	**$ 4,314**	$ 4,598	$ 5,909
Income taxes	**$ 42,683**	$ 4,787	$ 35,828

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Biogen, Inc. and Subsidiaries

(in thousands)	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 1997	$ 1,483	$ 516,138	$ (4,385)	$ 25,327	$ (2,270)	$ 536,293
Net income				138,697		138,697
Unrealized gains/losses on marketable securities, net of tax of $4,476					(7,072)	(7,072)
Unrealized gains/losses on interest rate swaps, net of transition adjustment (see Note 1)					(4,132)	(4,132)
Translation adjustment					309	309
Total comprehensive income						127,802
Exercise of options and related tax benefits		19,745	48,618	(27,188)		41,175
Reclassification of put option obligation				76,671		76,671
Treasury stock purchased			(65,550)			(65,550)
Compensation expense related to stock options		2,222				2,222
Balance, December 31, 1998	$ 1,483	$ 538,105	$ (21,317)	$ 213,507	$ (13,165)	$ 718,613
Net income				220,450		220,450
Unrealized gains/losses on marketable securities, net of tax of $25,013					48,555	48,555
Unrealized gains/losses on foreign currency forward contracts, net of tax of $2,490					6,654	6,654
Unrealized gains/losses on interest rate swaps, net of tax of $137					4,501	4,501
Translation adjustment					(927)	(927)
Total comprehensive income						279,233
Exercise of options and related tax benefits	24	108,952	122,750	(81,941)		149,785
Proceeds from sale of put warrants		22,086				22,086
Treasury stock purchased			(197,717)			(197,717)
Compensation expense related to stock options		7,530				7,530
Balance, December 31, 1999	$ 1,507	$ 676,673	$ (96,284)	$ 352,016	$ 45,618	$ 979,530
Net income				333,577		333,577
Unrealized gains/losses on marketable securities, net of tax of $6,791					(16,152)	(16,152)
Unrealized gains/losses on foreign currency forward contracts, net of tax of $1,686					(5,311)	(5,311)
Unrealized gains/losses on interest rate swaps, net of tax of $789					(1,458)	(1,458)
Translation adjustment					(321)	(321)
Total comprehensive income						310,335
Exercise of options and related tax benefits	10	95,748	162,900	(141,680)		116,978
Treasury stock purchased			(300,192)			(300,192)
Compensation expense related to stock options		(249)				(249)
Balance, December 31, 2000	$ 1,517	$ 772,172	$ (233,576)	$ 543,913	$ 22,376	$1,106,402

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Business

Biogen, Inc. ("Biogen" or the "Company") is a biopharmaceutical company principally engaged in the business of developing, manufacturing and marketing drugs for human health care. The Company currently derives revenues from sales of its AVONEX® (Interferon beta-1a) product for the treatment of relapsing forms of multiple sclerosis and from royalties on worldwide sales by the Company's licensees of a number of products covered under patents controlled by the Company, including alpha interferon and hepatitis B vaccines and diagnostic products.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated. Certain items in prior years' financial statements have been reclassified to conform with the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and use assumptions that affect certain reported amounts and disclosures; actual amounts may differ.

Translation of Foreign Currencies

The functional currency for most of the Company's foreign subsidiaries is the local currency. Assets and liabilities are translated at current rates of exchange. Income and expense items are translated at the average exchange rates for the year. Adjustments resulting from the translation of the financial statements of the Company's foreign operations into U.S. dollars are excluded from the determination of net income and are accumulated in a separate component of shareholders' equity. The U.S. dollar is the functional currency for certain foreign subsidiaries. The Company's subsidiaries which have the U.S. dollar as the functional currency are remeasured into U.S. dollars using current rates of exchange for monetary assets and liabilities and historical rates of exchange for nonmonetary assets. Foreign exchange transaction gains and losses are included in the results of operations in other income, net. Foreign exchange gains totaled $2.8 million, $2.5 million and $2.5 million in 2000, 1999, and 1998, respectively.

Cash and Cash Equivalents

The Company considers only those investments which are highly liquid, readily convertible to cash and which mature within three months from date of purchase to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, accounts receivable, other current assets, accounts payable, and accrued expenses and other approximate fair value due to the short-term maturities of these instruments. Marketable securities are carried at fair value based on quoted market prices, consistent with the requirements of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The fair values of trading securities, interest rate swaps, foreign currency forward contracts and options on non-marketable instruments are based on quoted market prices or pricing models using current market rates. The Company's long-term debt approximates fair value based on dealer quotes.

Inventories

Inventories are stated at the lower of cost or market with cost determined under the first-in/first-out ("FIFO") method and are included in other current assets. Included in inventory are raw materials used in the production of pre-clinical and clinical products which are expensed as research and development costs when consumed. The components of inventories for the periods ending December 31, are as follows:

(in thousands)	**2000**	**1999**
Raw materials	$ 7,775	$ 5,679
Work in process	17,582	15,110
Finished goods	14,172	19,242
	$ 39,529	$ 40,031

Marketable Securities

The Company invests its excess cash balances in short-term marketable securities, principally corporate notes and government securities. At December 31, 2000, substantially all of the Company's securities were classified as "available-for-sale". All available-for-sale securities are recorded at fair market value and unrealized gains and losses are included in accumulated other comprehensive income in shareholders' equity, net of related tax effects. Realized gains and losses and declines in value, if any, judged to be other than temporary on available-for-sale securities are reported in other income or expense.

As part of its strategic product development efforts, the Company also invests in equity securities of certain biotechnology companies with which it has collaborative agreements. Such investments, which are included in long-term marketable securities and other assets, are classified as available-for-sale if a readily determinable market value exists. These investments are accounted for under the cost or equity method, depending on the facts and circumstances of the investment, and are reviewed regularly for impairment.

On a quarterly basis, as of the end of the quarter, the Company determines whether a decline in fair value of a marketable security is other than temporary. Unrealized gains and losses on marketable securities are included in other comprehensive income in shareholders' equity, net of related tax effects. If a decline in the fair value of a marketable security below the Company's cost basis is determined to be other than temporary, such marketable security is written down to its estimated fair value with a charge to current earnings. The Company has concluded that all unrealized losses on marketable securities at December 31, 2000 are temporary in nature. The Company expects that the market value of such investments will recover to at least the Company's cost basis within a reasonable period of time. Should any portion of these unrealized losses subsequently be determined to be other than temporary, the Company would be required to record the related amount as a charge to current earnings.

Property and Equipment

Property and equipment is carried at cost, subject to review of impairment for significant assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the useful life or the term of the respective lease. Maintenance of computer systems, including maintenance to make software Year 2000 compliant, is expensed as incurred. Buildings and equipment are depreciated over estimated useful lives ranging from 30 to 40 and 3 to 10 years, respectively. The Company capitalizes certain incremental costs associated with the validation effort required for licensing by the FDA of manufacturing equipment for the production of a commercially approved drug. These costs include primarily direct labor and material and are incurred in preparing the equipment for its intended use. Net capitalized validation costs were $4.3 million and $4.7 million at December 31, 2000 and 1999, respectively. The validation costs are amortized over the life of the related equipment.

Patents

The costs associated with successful patent defenses and patent applications are capitalized and amortized on a straight-line basis over estimated useful lives up to 15 years. Accumulated amortization of patent costs was $25.2 million and $20.1 million as of December 31, 2000 and 1999, respectively. The carrying value of patents is regularly reviewed by the Company and impairments are recognized when the expected future operating cash flows derived from the patent are less than their carrying value.

Derivatives and Hedging Activities

On June 15, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", ("SFAS 133"). The Company elected to adopt SFAS 133 in the fourth quarter of 1998. All derivatives are recognized on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The Company assesses, both at its inception and on an on-going basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in cash flows of hedged items. The Company assesses hedge ineffectiveness on a quarterly basis and records the gain or loss related to the ineffective portion to current earnings to the extent significant. If the Company determines that a cash flow hedge is no longer probable of occurring, the Company discontinues hedge accounting for the affected portion of the forecasted transaction, and any unrealized gain or loss on the contract is recognized in current earnings.

Comprehensive Income

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", ("SFAS 130") requires the display of comprehensive income and its components as part of the Company's full set of financial statements. Comprehensive income is

comprised of net income and other comprehensive income. Other comprehensive income includes certain changes in equity that are excluded from net income, such as translation adjustments and unrealized holding gains and losses on available-for-sale marketable securities and certain derivative instruments, net of tax. The Consolidated Statements of Shareholders' Equity reflect comprehensive income for years ended December 31, 2000, 1999 and 1998 which were $310.3 million, $279.2 million and $127.8 million, respectively.

Upon adoption of SFAS 133, on October 1, 1998, the Company recorded an adjustment to other comprehensive income to recognize at fair value all derivatives that were designated as cash flow hedging instruments, which comprised unrealized losses related to the Company's interest rate swaps of $5.4 million. This unrealized loss decreased by $1.3 million during the fourth quarter of 1998 and as of December 31, 1998, the cumulative unrealized losses on the Company's interest rate swaps were $4.1 million. During 1999, the Company recorded $4.5 million of unrealized gains to other comprehensive income reflecting the increase in the fair value of the interest rate swaps and at December 31, 1999 had a cumulative unrealized gain of $366,000. During 2000, the Company recorded $1.5 million of unrealized losses to other comprehensive income reflecting the decrease in the fair value of the interest rate swaps and at December 31, 2000 had a cumulative unrealized loss of $1.1 million.

The Company entered into foreign currency forward contracts in October 1998. At December 31, 1998, these contracts had unrealized gains of $3,000, which were aggregated with the unrealized losses associated with the Company's interest rate swaps in comprehensive income. During 1999, the fair value of the Company's foreign currency forward contracts increased by $6.7 million in unrealized gains. At December 31, 1999, the Company had cumulative unrealized gains of $6.7 million on its foreign currency forward contracts. During 2000, the fair value of the Company's foreign currency forward contracts decreased by $5.3 million. At December 31, 2000, the Company had cumulative unrealized gains of $1.4 million on its foreign currency forward contracts.

Segment Information

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information", ("SFAS 131") establishes standards for reporting information on operating segments in interim and annual financial statements. The Company's chief operating decision makers review the profit and loss of the Company on an aggregate basis and manage the operations of the Company as a single operating segment. Accordingly, the Company operates in one segment, which is the business of developing, manufacturing and marketing drugs for human health care.

Revenues

Revenues from product sales are recognized when product is shipped and title and the risk of loss has passed. Revenues are recorded net of applicable allowances for returns, rebates and other applicable discounts and allowances. The Company prepares its estimates for sales returns and allowances, discounts and rebates quarterly based primarily on historical experience updated for changes in facts and circumstances, as appropriate.

The Company receives royalty revenues under license agreements with a number of third parties that sell products based on technology developed by the Company or to which the Company has rights. The license agreements provide for the payment of royalties to the Company based on sales of the licensed product. The Company records these revenues based on estimates of the sales that occurred during the relevant period. The relevant period estimates of sales are based on interim data provided by licensees and analysis of historical royalties paid to the Company (adjusted for any changes in facts and circumstances, as appropriate). The Company maintains regular communication with its licensees in order to gauge the reasonableness of its estimates. Differences between actual royalty revenues and estimated royalty revenues are reconciled and adjusted for in the following quarter. Historically, adjustments have not been material based on actual amounts paid by licensees. There are no future performance obligations on the part of the Company under these license agreements.

Revenue is not recognized in any circumstances unless collectibility is reasonably assured.

Research and Development Expenses

Research and development costs, including amounts funded in research collaborations, are expensed as incurred.

Earnings per Share

The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 requires the presentation of "basic" earnings per share and "diluted" earnings per share. Basic earnings per share is computed by dividing the net income available to common shareholders by the weighted average number of shares of

common stock outstanding. For purposes of calculating diluted earnings per share the denominator includes both the weighted average number of shares of common stock outstanding and the number of dilutive common stock equivalents such as stock options and warrants.

Dilutive securities include outstanding options under the Company's stock option plans. Options to purchase 2.7 million shares were outstanding at December 31, 2000 but not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price during the period. The put warrants sold in connection with the Company's stock repurchase program in 1999 did not have a significant additional dilutive effect. Shares used in calculating basic and diluted earnings per share for the periods ending December 31, are as follows:

(in thousands)	**2000**	**1999**	**1998**
Weighted average number of shares of common stock outstanding	148,743	149,921	147,537
Dilutive stock options	5,859	7,867	6,733
Shares used in calculating diluted earnings per share	154,602	157,788	154,270

On June 11, 1999, the Board of Directors declared a two-for-one stock split to be effected in the form of a stock dividend of one share of common stock for each share outstanding. The stock dividend was payable on June 25, 1999 to shareholders of record at the close of business on June 11, 1999. All references to number of shares and per share amounts in the financial statements have been restated to give effect to the stock split for all periods presented.

2. Financial Instruments

Financial instruments that potentially subject the Company to concentrations of credit risk are accounts receivable and marketable securities. Wholesale distributors and large pharmaceutical companies account for the majority of the accounts receivable and collateral is generally not required. To mitigate the risk, the Company monitors the financial performance and credit worthiness of its customers. The Company invests its excess cash balances in marketable debt securities, primarily U.S. government securities and corporate bonds and notes, with strong credit ratings. The Company limits the amount of investment exposure as to institution, maturity and investment type.

The average maturity of the Company's marketable securities as of December 31, 2000 and 1999 was 30 months and 24 months, respectively. Proceeds from maturities and other sales of marketable securities, which were primarily reinvested, for the years ended December 31, 2000, 1999 and 1998 were approximately $606 million, $1,006 million and $454 million, respectively. The cost of securities sold is determined based on the specific identification method. Realized gains and (losses) on these sales for the years ended December 31, 2000, 1999 and 1998 were $(1,846,000), $(1,442,000) and $645,000, respectively.

The following is a summary of marketable securities:

(in thousands)	Fair Value	Unrealized Gains	Unrealized Losses	Amortized Cost
December 31, 2000:				
U.S. Government securities	$ 288,214	$ 5,284	$ —	$ 282,930
Corporate debt securities	345,461	2,444	—	343,017
	$ 633,675	$ 7,728	$ —	$ 625,947
Marketable securities, noncurrent	$ 71,982	$ 28,174	$ —	$ 43,808
December 31, 1999:				
U.S. Government securities	$ 295,046	$ —	$ 4,656	$ 299,702
Corporate debt securities	302,573	—	3,717	306,290
	$ 597,619	$ —	$ 8,373	$ 605,992
Marketable securities, noncurrent	$ 98,017	$ 75,263	$ —	$ 22,754

The Company uses interest rate swap agreements to mitigate the risk associated with its floating rate debt. The fair value of the interest rate swap agreements at December 31, 2000, representing the cash requirements of the Company to settle the agreements,

approximated $1.7 million. The fair value of the interest rate swap agreements at December 31, 1999, representing the cash the Company would receive to settle the agreements, was approximately $366,000. The Company has designated the interest rate swaps as cash flow hedges. There were no amounts of hedge ineffectiveness related to the Company's interest rate swaps during 2000 and 1999, and no gains or losses were excluded from the assessment of hedge effectiveness. The Company records the differential to be paid or received on the interest rate swaps as incremental interest expense. The Company expects approximately $619,000 in losses related to its interest rate swaps to affect earnings in 2001.

The Company has foreign currency forward contracts to hedge specific transactions denominated in foreign currencies. All foreign currency forward contracts have durations of ninety days to 12 months. These contracts have been designated as cash flow hedges and accordingly, to the extent effective, any unrealized gains or losses on these foreign currency forward contracts are reported in other comprehensive income. Realized gains and losses for the effective portion are recognized with the underlying hedge transaction. The Company assesses hedge ineffectiveness on a quarterly basis and records the gain or loss related to the ineffective portion to current earnings to the extent significant. If the Company determines that a cash flow hedge is no longer probable of occurring, the Company discontinues hedge accounting for the affected portion of the forecasted transaction and any unrealized gain or loss on the contract is recognized in current earnings. The notional settlement amount of the foreign currency forward contracts outstanding at December 31, 2000 was approximately $111.7 million. These contracts had a fair value of approximately $2.2 million, representing an unrealized gain, and were included in other current assets at December 31, 2000.

In 2000, there were no significant amounts recognized in earnings due to hedge ineffectiveness. During 2000, the Company recognized $977,000 in other income as a result of the discontinuance of cash flow hedges upon determining that it was no longer probable that the original forecasted transaction would occur. The Company recognized $12.7 million of gains in product revenue and $3.7 million of gains in royalty revenue for the settlement of certain effective cash flow hedge instruments during the year ended December 31, 2000. These settlements were recorded in the same period as the related forecasted transactions affecting earnings. The Company expects approximately $2.2 million of unrealized gains at December 31, 2000 to affect earnings in 2001 related to its foreign currency forward contracts.

In 1999, there were no significant amounts recognized in earnings due to hedge ineffectiveness or as a result of the discontinuance of cash flow hedge accounting because it was probable that the original transaction would not occur. The Company recognized $7.4 million of gains in product revenue and $2.7 million of gains in royalty revenue for the settlement of certain effective cash flow hedge instruments during the year ended December 31, 1999. These settlements were recorded in the same period as the related forecasted transactions affecting earnings.

During 1998, the Company recognized $686,000 in other expense as a result of the discontinuance of cash flow hedges upon determining that it was no longer probable that the original forecasted transaction would occur. The Company also recognized a $322,000 gain in product revenue and a $485,000 loss in royalty revenue for the settlement of certain cash flow hedge instruments during the period. These settlements were recorded in the same period as the related forecasted transactions affecting earnings.

3. Borrowings

As of December 31, 2000, the Company had $15.8 million outstanding under a floating rate loan with a bank (the "Term Loan"). The Term Loan is secured by the Company's laboratory and office building in Cambridge, Massachusetts. The Term Loan provides for annual principal payments of $1.7 million in each of the years 1996 through 2004 with the balance due May 8, 2005. The Company also entered into an interest rate swap agreement, with the same bank, fixing its interest rate at 7.5% during the remaining term of the loan, payable semi-annually.

As of December 31, 2000, the Company had $36.2 million outstanding under a floating rate loan agreement with a bank for financing the construction of its biological manufacturing facility in North Carolina (the "Construction Loan"). The Construction Loan is secured by the facility. Payments of $805,000 are due quarterly through 2006 with the balance due in 2007. The Company also entered into an interest rate swap agreement, with the same bank, fixing its interest rate at 7.75% during the remaining term of the loan, payable quarterly.

The Term Loan and Construction Loan agreements include various covenants, including financial covenants, which require the Company to maintain minimum net worth, cash flow and various financial ratios. The Company's long-term debt obligations are carried at face value, which approximates fair market value.

Long-term debt at December 31, consists of the following:

(in thousands)	2000	1999
Term Loan due 2005	$ 15,836	$ 17,501
Construction Loan due 2007	36,237	39,460
	52,073	56,961
Current portion	(4,888)	(4,888)
	$ 47,185	$ 52,073

4. Consolidated Balance Sheet Details

Property and equipment:

	December 31,	
(in thousands)	2000	1999
Land	$ 12,349	$ 12,349
Buildings	84,119	92,462
Leasehold improvements	63,845	54,946
Equipment	185,404	191,809
Construction in Progress	191,355	—
Total cost	537,072	351,566
Less accumulated depreciation	136,643	111,789
	$ 400,429	$ 239,777

Depreciation expense was $27.8 million, $25.9 million and $21.4 million for 2000, 1999 and 1998, respectively.

Accrued expenses and other:

	December 31,	
(in thousands)	2000	1999
Royalties and licensing fees	$ 32,188	$ 34,914
Income taxes	69,494	64,545
Clinical trial costs	24,694	15,746
Other	51,888	40,052
	$ 178,264	$ 155,257

5. Pensions

The Company has a defined benefit pension plan which provides benefits to substantially all of its employees. The Company also has a supplemental retirement benefit plan which covers certain employees. The pension plans are noncontributory with benefit formulas based on employee earnings and credited years of service. The Company's funding policy for its pension plans is to contribute amounts deductible for federal income tax purposes. Funds contributed to the plans are invested in fixed income and equity securities.

The components of net periodic pension cost for each of the three years ended December 31 are summarized below:

(in thousands)	2000	1999	1998
Service cost	$ 3,314	$ 2,923	$ 2,225
Interest cost	1,799	1,307	1,041
Expected return on plan assets	(1,258)	(994)	(722)
Amortization of transition asset	—	—	(21)
Amortization of prior service cost	43	43	43
Amortization of net actuarial loss	86	22	—
Net pension cost	$ 3,984	$ 3,301	$ 2,566

Reconciliations of projected benefit obligations, fair value of plan assets and the funded status of the plans as of December 31, are presented below:

(in thousands)	**2000**	**1999**
Change in projected benefit obligation		
Net projected benefit obligation at the beginning of the year	$ (19,377)	$ (16,003)
Service cost	(3,314)	(2,923)
Interest cost	(1,799)	(1,307)
Actuarial gain (loss)	(935)	697
Gross benefits paid	991	159
Net projected benefit obligation at the end of the year	(24,434)	(19,377)
Change in plan assets		
Fair value of plan assets at the beginning of the year	15,061	11,773
Actual return on plan assets	(934)	2,021
Employer contributions	2,000	1,500
Gross benefits paid	(752)	(43)
Administrative expenses	(119)	(190)
Fair value of plan assets at the end of the year	15,256	15,061
Funded status at the end of the year		
Funded status at the end of the year	(9,178)	(4,316)
Unrecognized net actuarial (gain) loss	1,224	(1,833)
Unrecognized prior service cost	271	315
Unrecognized net transition asset	0	0
Net amount recognized at the end of the year	$ (7,683)	$ (5,834)
Weighted average assumptions at the end of the year		
Discount rate	7.50%	7.50%
Expected return on plan assets	8.00%	8.00%
Rates of compensation increase	5.00%	5.00%

The Company has an unfunded supplemental retirement plan. As of December 31, 2000 the projected benefit and the accumulated benefit obligations were $5.7 million and $3.7 million, respectively. As of December 31, 1999 the projected benefit and the accumulated benefit obligations were $3.8 million and $2.8 million, respectively.

6. Other Income, Net

Other income, net consists of the following

	December 31,		
(in thousands)	**2000**	**1999**	**1998**
Interest income	$ 42,965	$ 35,407	$ 28,339
Interest expense	(4,310)	(4,639)	(5,944)
Other income (expense)	120,094	(18,003)	(2,841)
Total other income, net	$ 158,749	$ 12,765	$ 19,554

Other income (expense) for the period ended December 31, 2000 included gains on the sale of certain non-current marketable securities totaling approximately $101.1 million. Additionally, the Company realized gains of approximately $24.1 million upon the acquisition of two of its investees by third parties. Other income (expense) for the period ended December 31, 1999 included a $15 million write-down of certain non-current marketable securities.

As part of its strategic product development efforts, the Company invests in equity securities of certain biotechnology companies with which it has collaborative agreements. In December of 1996, Biogen purchased approximately 1.5 million shares of Creative BioMolecules, Inc. common stock for $18 million. In March of 1997, Biogen purchased approximately 670,000 shares of CV Therapeutics, Inc. common stock for $7 million. In March of 1998, the Company purchased approximately 435,000 shares of CuraGen common stock for $5 million and converted 100,000 shares of CuraGen Series E Preferred Stock valued at $1 million into CuraGen common stock. Each of these small emerging companies was principally engaged in researching, developing or manufacturing drugs for human health care.

As a matter of policy, Biogen determines on a quarterly basis whether a decline in the fair value of a marketable security is other than temporary. Unrealized gains and losses on marketable securities are included in other comprehensive income in shareholders' equity, net of related tax effects. If a decline in the fair value of a marketable security below the Company's cost basis is determined to be other than temporary, such marketable security is written down to its estimated fair value with a charge to current earnings.

Up through and including the assessment at June 30, 1999, the Company concluded that substantial evidence existed suggesting that the value of the investments described above would recover to at least the Company's purchase price. Such evidence included the prospects for favorable clinical trial results, new product initiatives and new collaborative agreements. However, given the lack of any substantial price recovery during the quarter ended June 30, 1999 and the amount of time elapsed since the decline in value began, the Company concluded that it had become unclear over what period such price recovery would take place. As a result, it was determined that the positive evidence suggesting that the investments would recover to at least the Company's purchase price was not sufficient to overcome the presumption that the current market price of the investments was the best indicator of value at June 30, 1999. Accordingly, the related unrealized losses of approximately $15 million were recognized as other expense in the second quarter of 1999.

7. Income Taxes

The components of income before income taxes and of income tax expense (benefit) for each of the three years ended December 31, are as follows:

(in thousands)	**2000**	**1999**	**1998**
Income before income taxes:			
Domestic	$ 379,489	$ 253,303	$ 200,181
Foreign	107,616	75,713	10,012
	$ 487,105	$ 329,016	$ 210,193
Income tax expense:			
Current			
Federal	$ 115,696	$ 112,499	$ 58,152
State	11,969	15,587	3,937
Foreign	1,098	4,206	887
	$ 128,763	$ 132,292	$ 62,976
Deferred			
Federal	$ 25,344	$ (20,863)	$ 8,314
State	(579)	(2,863)	206
	24,765	(23,726)	8,520
Total income tax expense	$ 153,528	$ 108,566	$ 71,496

Deferred tax assets (liabilities) are comprised of the following at December 31:

(in thousands)	**2000**	**1999**
Tax credits	$ 28,135	$ 35,089
Inventory and other reserves	11,532	14,927
Other	379	549
Deferred tax asset	40,046	50,565
Depreciation, amortization and other	(24,189)	(9,943)
Unrealized gain on investments	(12,956)	(27,640)
Deferred tax liabilities	(37,145)	(37,583)
	$ 2,901	$ 12,982

A reconciliation of the U.S. federal statutory tax rate to the effective tax rate for the periods ending December 31 is as follows:

	2000	**1999**	**1998**
Statutory rate	35.0%	35.0%	35.0%
State taxes	3.2	3.3	3.0
Foreign taxes	(2.6)	(2.6)	—
Credits and net operating loss utilization	(3.3)	(2.6)	(4.2)
Other	(0.8)	(0.1)	0.2
Effective tax rate	31.5%	33.0%	34.0%

At December 31, 2000, the Company had tax credits of $28.1 million, most of which expire at various dates through 2015.

As of December 31, 2000, undistributed foreign earnings of non-U.S. subsidiaries included in consolidated retained earnings aggregated $117 million, exclusive of earnings that would result in little or no tax under current U.S. tax law. The Company intends to reinvest these earnings indefinitely in operations outside the United States. It is not practicable to estimate the amount of additional tax that might be payable if such earnings were remitted to the United States.

8. Research Collaborations

In September 2000, the Company signed a research and development agreement (the "Eos Agreement") with Eos Biotechnology, Inc. ("Eos"), under which the Company and Eos will collaborate in the research and development of novel targets for antibody and protein therapeutics in the area of breast cancer. Under the Eos Agreement, the Company purchased 1.9 million shares of preferred stock of Eos for $5 million. In addition, the Company paid a one-time, non-refundable license fee for $6 million, which was charged to research and development expense and acquired certain exclusive, worldwide rights related to breast cancer-specific molecules for the use in the development of new antibody and secreted protein therapeutics. The Company accounts for its investment in Eos, which is included in other assets, using the cost method of accounting. The Company provided Eos with research and development funding of $250,000 in 2000. The Company expects to fund research activities of Eos related to the collaboration of up to $1.5 million in 2001.

In August 2000, the Company signed a development and marketing collaboration agreement (the "Antegren Agreement") with Elan Corporation, plc ("Elan") under which the Company and Elan collaborate in the development, manufacture and commercialization of ANTEGREN®, a humanized monoclonal antibody and alpha 4 integrin inhibitor. Under the terms of the Antegren Agreement, Biogen and Elan will share costs for on-going development activities. The Company paid a one-time, non-refundable license fee of $15 million, which was charged to research and development expense.

In October 1997, the Company signed a research and option agreement (the "CuraGen Agreement") with CuraGen Corporation ("CuraGen") under which the Company and CuraGen collaborate in the discovery of novel genes using CuraGen's functional genomics technologies. The Company provided CuraGen with research and development funding of $1.5 million, $1.1 million and $1.9 million in 2000, 1999 and 1998, respectively. The Curagen Agreement was terminated in September 2000 and all investments in CuraGen common stock were sold during 2000.

In March 1997, the Company signed a research collaboration and license agreement (the "CVT Agreement") with CV Therapeutics, Inc. ("CVT") under which Biogen obtained rights under CVT's patents and know-how to develop and market molecules that act as highly

selective antagonists of the adenosine A_1 receptor, for the treatment of congestive heart failure. Under the terms of the CVT Agreement, the Company purchased approximately 670,000 shares of CVT common stock at the then fair value for $7 million and paid a one-time license fee of $5 million, which was charged to research and development expense. The investment in CVT is classified as available-for-sale and is included in long-term marketable securities. At December 31, 2000 the Company retained approximately 670,000 shares of CVT common stock.

In December 1996, the Company signed a research collaboration and license agreement (the "CBM Agreement") with Creative BioMolecules, Inc. ("CBM") under which Biogen obtained rights to develop and market CBM's morphogenic protein, OP-1, for the treatment of renal disorders. Under the CBM Agreement, the Company purchased 1.5 million shares of CBM common stock for $18 million. The payment for the common stock included a $1.2 million premium over the fair value of the common stock which was charged to research and development expense. The Company provided $10 million in research and development funding, which was charged to expense as provided in 1998. The CBM Agreement terminated at the end of 1999 and all investments in CBM common stock were sold during 2000.

In July 1996, the Company signed a collaborative research and commercialization agreement (the "Ontogeny Agreement") with Ontogeny, Inc. ("Ontogeny"), a private biotechnology company, for the development and commercialization of three specific hedgehog cell proteins, a class of novel human proteins, that are responsible for reducing the formation or regeneration of tissue. Under the Ontogeny Agreement, the Company purchased 400,000 shares of preferred stock of Ontogeny for $1 million and acquired certain exclusive, worldwide rights related to products based on the hedgehog proteins for most disease areas. In November 1998, the Company extended and expanded its collaboration with Ontogeny and provided to Ontogeny a $4 million convertible loan. In June 1999, the loan was converted into 800,000 shares of Ontogeny Convertible Preferred Stock. The Ontogeny Agreement was terminated in July 2000. In August 2000, Ontogeny merged with two other biotechnology companies to form Curis Inc. ("Curis"). As a shareholder in Ontogeny, Biogen received Curis common stock in exchange for the Company's shares in Ontogeny. The Company provided $1 million, $2.8 million and $3.6 million of research funding to Ontogeny in 2000, 1999 and 1998, respectively. Additionally, the Company provided $1.5 million upon conclusion of the Ontogeny Agreement, which was charged to research and development expense. At December 31, 2000 the investment in Curis is classified as available-for-sale and is included in long-term marketable securities. At December 31, 2000 the Company retained approximately 308,000 shares of Curis common stock.

In August 1995, the Company signed a collaborative research agreement (the "Genovo Agreement") for the development of human gene therapy treatments with Genovo, Inc. ("Genovo"), a gene therapy research company. Under the Genovo Agreement, the Company acquired 380,000 shares of Genovo Series A Preferred Stock for $4.5 million and acquired certain licensing rights. The Company accounted for this investment, which was included in other assets, using the equity method of accounting. The Company recorded its proportion of Genovo's net losses as research and development expense in the amounts of $3.9 million, $7.6 million, and $9 million in 2000, 1999, and 1998, respectively. In August 2000, Genovo entered into a merger agreement ("Targeted Merger Agreement") with Targeted Genetics Corporation ("Targeted"). As a shareholder in Genovo, Biogen received Targeted common stock in exchange for the Company's shares in Genovo. Additionally, concurrently with the Targeted Merger Agreement, the Company entered into a development and marketing agreement and a funding agreement (the "Targeted Agreements") for gene therapy research and development in oncology. The Targeted Agreements provide for a $10 million credit facility. Targeted also has an option to sell to the Company an additional $10 million of Targeted common stock at fair value. As of December 31, 2000, there were no borrowings outstanding under the credit facility and the Company provided $250,000 in research funding to Targeted in 2000.

9. Commitments and Contingencies

The Company rents laboratory and office space and certain equipment under noncancellable operating leases. The rental expense under these leases, which terminate at various dates through 2015, amounted to $14.9 million in 2000, $11.9 million in 1999 and $9.4 million in 1998. The lease agreements contain various clauses for renewal at the option of the Company and, in certain cases, escalation clauses linked generally to rates of inflation.

At December 31, 2000, minimum annual rental commitments under noncancellable leases were as follows:

Year	*(in thousands)*
2001	$ 17,365
2002	15,123
2003	13,338
2004	12,261
2005	11,993
Thereafter	60,220
Total minimum lease payments	$130,300

On October 4, 1999 the Company began construction of its new research and development center in Cambridge, Massachusetts. The new 224,000 square foot building is expected to be completed in the spring of 2001. At December 31, 2000, $81.4 million had been committed for construction costs. Additionally, the Company is completing plans to build a large scale manufacturing plant in Raleigh, North Carolina. The Company expects that construction will be completed at the end of 2001. At December 31, 2000, $141.9 million had been committed for construction costs.

On July 3, 1996, Berlex Laboratories, Inc. ("Berlex") filed suit against Biogen in the United States District Court for the District of New Jersey alleging infringement by Biogen of Berlex's "McCormick" patent (U.S. Patent No. 5,376,567) in the United States in the production of Biogen's AVONEX® (Interferon beta-1a) product. In November 1996, Berlex's New Jersey action was transferred to the United States District Court in Massachusetts and consolidated for pre-trial purposes with a related declaratory judgment action previously filed by Biogen. On August 18, 1998, Berlex filed a second suit against Biogen alleging infringement by Biogen of a patent which was issued to Berlex in August 1998 and which is related to the McCormick patent (U.S. Patent No. 5,795,779). On September 23, 1998, the cases were consolidated for pre-trial and trial purposes. Berlex sought a judgment granting it damages, a trebling of any damages awarded and a permanent injunction restraining Biogen from the alleged infringement. A hearing on the parties' summary judgment motions in the case was completed in March 2000. In September 2000, the District Court rendered final judgment in favor of Biogen and against Berlex determining that Biogen's production of AVONEX® did not infringe any of the claims of the Berlex patents. Berlex has appealed this decision with the Court of Appeals for the Federal Circuit and the parties are in the process of briefing the appeal for oral argument. An unfavorable ruling on appeal would result in the case being remanded to the District Court for trial. If Berlex were to be successful in its appeal and the case were remanded, an unfavorable ruling in the remanded case could have a material adverse effect on the Company's results of operations and financial position. The Company believes that the decision of the District Court that Biogen does not infringe the Berlex patents is sound, but the ultimate outcome of the appeal is not currently determinable. As a result, an estimate of any potential loss or range of loss cannot be made at this time.

In 1995, the Company filed an opposition with the Opposition Division of the European Patent Office to oppose a European patent (the "Rentschler I Patent") issued to Dr. Rentschler Biotechnologie GmbH ("Rentschler") relating to compositions of matter of beta interferon. In 1997, the European Patent Office issued a decision to revoke the Rentschler I Patent. Rentschler appealed that decision and an oral hearing on the appeal took place in December 2000. At the oral hearing in order to gain reinstatement of the patent, Rentschler narrowed the patent claims so as to claim only a specific cell line. Biogen does not use the specific cell line now claimed. On October 13, 1998, the Company filed another opposition with the Opposition Division of the European Patent Office to oppose a second European patent issued to Rentschler (the "Rentschler II Patent") with certain claims regarding compositions of matter of beta interferon with specific regard to the structure of the glycosylated molecule. A hearing on the Company's opposition previously scheduled for October 2000 has been postponed, and will likely be held in 2001. While Biogen believes that the Rentschler II Patent will be revoked and that the revocation of the Rentschler I Patent will be upheld on appeal, if either the Rentschler I Patent or the Rentschler II Patent were to be upheld and if Rentschler were to obtain, through legal proceedings, a determination that the Company's sale of AVONEX® in Europe infringes a valid Rentschler patent, such result could have a material adverse effect on the Company's results of operation and financial position.

10. Shareholders' Equity

Convertible Exchangeable Preferred Stock

The Company has authority to issue 20,000,000 shares of $.01 par value preferred stock.

Shareholder Rights Plan

In 1989, the Company's Board of Directors declared a dividend to holders of the Company's common stock of rights (the "Old Rights") to purchase shares of Series A Junior Participating Preferred Stock (the "Old Preferred Stock"). Each Old Right entitled the registered holder to purchase from the Company one one-hundredth of a share of Old Preferred Stock upon the terms and subject to the conditions set forth in a Rights Agreement, dated as of May 8, 1989, between the Company and The First National Bank of Boston (the "Old Plan"). The Old Plan and the Old Rights expired on May 8, 1999. Consequently, on April 16, 1999, the Board of Directors declared a dividend to holders of the Company's common stock of one new preferred share purchase right (a "New Right") for each outstanding share of common stock. The New Rights were granted on May 8, 1999 pursuant to a new Rights Agreement, dated May 8, 1999, between the Company and State Street Bank and Trust Company, as Rights Agent (the "New Plan"). Each New Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A-1 Junior Participating Preferred Stock, par value $.01 per share ("New Preferred Stock"), at a price of $850 per one one-thousandth of a share of New Preferred Stock, subject to adjustment. Each one one-thousandth of a share of New Preferred Stock has rights, privileges and preferences which make its value approximately equal to the

value of one share of the Company's common stock. The New Rights are exercisable only if a person or group acquires 20% or more of the outstanding common stock of the Company or commences a tender or exchange offer, the consummation of which would result in the ownership of 20% or more of the outstanding common stock of the Company. Once the New Rights become exercisable, and in some circumstances if additional conditions are met, each New Right will entitle the Company's shareholders (other than the acquiror) to, among other things, purchase common stock at a substantial discount. Unless earlier redeemed or exchanged by the Company, the New Rights expire on May 8, 2009. The Company is entitled to redeem the New Rights at a price of $.001 per New Right.

The Old Preferred Stock has been eliminated and replaced with the New Preferred Stock. At December 31, 2000, the Company had 250,000 shares of New Preferred Stock authorized for use in connection with the New Plan.

Share Option and Purchase Plans

The Company has several stock-based compensation plans. The Company applies APB Opinion No. 25 "Accounting for Stock Issued to Employees" in accounting for its plans and applies Statement of Financial Accounting Standards No. 123 "Accounting for Stock Issued to Employees" ("SFAS 123") for disclosure purposes only. The SFAS 123 disclosures include pro forma net income and earnings per share as if the fair value-based method of accounting had been used. Stock issued to non-employees is accounted for in accordance with SFAS 123 and related interpretations. Included in compensation expense for the periods ending December 31, 2000, 1999 and 1998 were approximately $(249,000), $7.5 million, and $2.2 million, respectively, related to stock based compensation plans.

The Company has several plans and arrangements under which it may grant options to employees, Directors and Scientific Board members to purchase common stock. Under the terms of the Company's stock-based compensation plans, approximately 47 million options may be granted. Option grants are typically made under the 1985 Non-Qualified Stock Option Plan and the 1987 Scientific Board Stock Option Plan (the "Plans"). Options under the Plans are granted at no less than 100% of the fair market value on the date of grant. Options generally become exercisable over various periods, typically 5 to 7 years for employees and 3 years for Directors and Scientific Board members, and have a maximum term of 10 years.

Activity under these plans for the periods ending December 31, is as follows:

(shares are in thousands)	**2000**		**1999**		**1998**	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, Jan. 1	17,938	$ 24.53	22,376	$ 15.97	22,304	$ 11.98
Granted	2,731	55.34	3,099	60.24	3,618	33.88
Exercised	(3,250)	11.61	(5,435)	10.45	(2,612)	7.65
Canceled	(502)	34.17	(2,102)	22.41	(934)	13.33
Outstanding, Dec. 31	16,917	$ 31.70	17,938	$ 24.53	22,376	$ 15.97
Options exercisable	9,093		9,384		10,998	
Available for grant	1,578		3,807		4,804	
Weighted average fair value of options granted		$ 24.34		$ 26.23		$ 14.63

The table below summarizes options outstanding and exercisable at December 31, 2000:

(shares are in thousands)	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.00-$10.00	2,086	2.78	$ 8.10	2,030	$ 8.07
$10.01-$20.00	6,711	5.25	15.69	4,622	15.24
$20.01-$30.00	784	7.00	22.81	312	22.70
$30.01-$40.00	232	7.76	33.23	115	33.28
$40.01-$50.00	2,555	7.98	41.26	1,269	41.14
$50.01-$60.00	2,626	9.31	54.69	173	53.11
$60.01-$70.00	281	9.35	65.00	13	68.70
$70.01-$80.00	1,453	8.93	72.34	521	71.98
Over $80.00	189	8.80	85.85	38	85.89
Total	16,917		$ 31.70	9,093	

The Company also has two employee stock purchase plans covering substantially all of its employees. The plans allow employees to purchase common stock at 85% of the lower of the fair market value at either the date of the beginning of the plan period or the purchase date. Purchases under the plans are subject to certain limitations and may not exceed an aggregate of 1,120,000 shares during the term of the plans; no shares may be issued after December 31, 2007. Through December 31, 2000, 409,102 shares have been issued under the stock purchase plans.

If compensation cost for the Company's 2000, 1999 and 1998 grants under the stock-based compensation plans had been determined based on SFAS 123, the Company's pro forma net income, and pro forma diluted earnings per share for the years ending December 31, would have been as follows:

(in thousands except per share data)	**2000**	**1999**	**1998**
Pro forma net income	$ 294,412	$ 196,965	$ 122,342
Pro forma diluted earnings per share	$ 1.90	$ 1.25	$ 0.79

The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2000	**1999**	**1998**
Expected dividend yield	0%	0%	0%
Expected stock price volatility	45%	36%	36%
Risk-free interest rate	6.9%	5.5%	5.5%
Expected option term in years	5.5	5.6	5.6

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 did not apply to awards prior to 1995, and additional awards in future years are anticipated.

Stock Repurchase Program

On December 18, 2000, the Company announced that its Board of Directors had authorized the repurchase of up to 4 million shares of the Company's common stock. The repurchased stock will provide the Company with treasury shares for general corporate purposes, such as stock to be issued under employee stock option and stock purchase plans. Stock purchases are expected to occur from time to time through 2001. The stock repurchase program may be discontinued at any time.

On February 22, 1999, the Company announced that its Board of Directors had authorized the repurchase of up to 8 million shares of the Company's common stock. The repurchased stock provided the Company with treasury shares for general corporate purposes, such as stock to be issued under employee stock option and stock purchase plans. During 1999, the Company repurchased approximately 3.4

million shares of its common stock at a cost of $197.7 million. During 2000, the Company repurchased approximately 4.6 million shares of its common stock at a cost of $300.2 million, completing this program.

To enhance the 1999 stock repurchase program, the Company sold put warrants to and purchased call options from independent third parties for a total of 4 million shares of which 2.2 million shares were outstanding at December 31, 1999, at a strike price of $49.47. None of the put warrants and call options were outstanding at December 31, 2000. Additionally, during 1999 in a separate put warrant program to facilitate its purchase of common stock, the Company sold put warrants for total proceeds of $22.1 million. The Company had put warrants to purchase 1.6 million shares outstanding at December 31, 1999, at an average strike price of $68.99 relating to this put warrant program. None of the put warrants were outstanding at December 31, 2000. The outstanding put warrants permitted a net-share settlement at the Company's option and, therefore, did not result in a put obligation liability on the Company's Consolidated Balance Sheets. The put warrants sold in connection with the Company's stock repurchase program did not have a significant additional dilutive effect.

11. Segment Information

The Company operates in one segment, which is the business of developing, manufacturing and marketing drugs for human health care. The chief operating decision makers review the profit and loss of the Company on an aggregate basis and manage the operations of the Company as a single operating segment. The Company currently derives product revenues from sales of its AVONEX® (Interferon beta-1a) product for the treatment of relapsing forms of multiple sclerosis. The Company also derives revenue from royalties on worldwide sales by the Company's licensees of a number of products covered under patents controlled by the Company, including alpha interferon and hepatitis B vaccines and diagnostic products. Revenues are primarily attributed from external customers to individual countries where earned based on location of the customer or licensee. At December 31, 2000, product and royalty revenues from external customers in The Netherlands were approximately 10% of total revenues. As of December 31, 1999, and 1998, respectively, no material amounts of product or royalty revenue could be attributable to an individual foreign country.

The Company's geographic information is as follows:

(in thousands)	US	Europe	Asia	Other	Total
December 31, 2000:					
Product revenue from external customers	$ 552,591	$ 199,714	$ —	$ 8,774	$ 761,079
Royalty revenue from external customers	120,578	26,414	16,479	1,902	165,373
Long-lived assets	497,347	6,125	—	113	503,585
December 31, 1999:					
Product revenue from external customers	$ 442,278	$ 173,640	$ —	$ 4,718	$ 620,636
Royalty revenue from external customers	117,182	38,391	15,871	2,355	173,799
Long-lived assets	346,706	20,910	—	131	367,747
December 31, 1998:					
Product revenue from external customers	$ 303,591	$ 91,237	$ —	$ 35	$ 394,863
Royalty revenue from external customers	108,177	37,573	13,940	3,034	162,724
Long-lived assets	214,554	15,912	—	105	230,571

The Company received revenue from five unrelated parties in 2000 accounting for a total of 18%, 13%, 12%, 11% and 10% of total product and royalty revenue. The Company received revenue from five unrelated parties in 1999 accounting for a total of 15%, 13%, 13%, 11% and 11% of total product and royalty revenue. The Company received revenue from five unrelated parties in 1998 accounting for a total of 16%, 13%, 11%, 11% and 10% of total product and royalty revenue.

12. Quarterly Financial Data (unaudited)

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
2000					
Total revenues	$ 216,848	$ 230,514	$ 233,754	$ 245,336	$ 926,452
Product revenue	174,596	190,009	193,242	203,232	761,079
Royalties revenue	42,252	40,505	40,512	42,104	165,373
Total expenses and taxes	194,506	175,191	198,577	183,350	751,624
Other income, net	99,024	16,737	33,204	9,784	158,749
Net income	121,366	72,060	68,381	71,770	333,577
Basic earnings per share	0.81	0.48	0.46	0.49	2.24
Diluted earnings per share	0.77	0.47	0.44	0.47	2.16
1999					
Total revenues	$ 171,720	$ 188,929	$ 208,431	$ 225,355	$ 794,435
Product revenue	131,320	145,852	163,448	180,016	620,636
Royalties revenue	40,400	43,077	44,983	45,339	173,799
Total expenses and taxes	132,220	136,271	154,494	163,765	586,750
Other income, net	6,184	(9,270)	8,092	7,759	12,765
Net income	45,684	43,388	62,029	69,349	220,450
Basic earnings per share	0.31	0.29	0.41	0.46	1.47
Diluted earnings per share	0.29	0.28	0.39	0.44	1.40

13. New Accounting Pronouncement

In December 1999, the United States Securities and Exchange Commission issued Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues, as well as examples of how the staff applies revenue recognition guidance to specific circumstances. The Company adopted SAB 101 in 2000. Adoption of SAB 101 did not have a material effect on the Company's financial position and results of operations.

Report of Independent Accountants

Biogen, Inc. and Subsidiaries

To the Board of Directors and Shareholders of Biogen, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of Biogen, Inc. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion.

PricewaterhouseCoopers LLP

Boston, Massachusetts
January 11, 2001

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Biogen, Inc. and Subsidiaries

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President and Chief Executive Officer

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Cornelis "Kees" Been
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Toshio Nakata, D.Sc.
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Vice President - Japan, Asia, Oceana

John W. Palmer
Vice President - Program Management

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Biogen, Inc.

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Phillip A. Sharp, Ph.D. [2,3]
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Former Director of the Institute of Politics and Visiting Lecturer, John F. Kennedy School of Government, Harvard University; Visiting Lecturer, University of Wyoming; Former U.S. Senator

James W. Stevens [1,5]
Former Chairman, Prudential Asset Management Group

1 Member of the Finance and Audit Committee
2 Member of the Compensation and Management Resources Committee
3 Member of the Project Share Committee
4 Member of the Stock and Option Plan Administration Committee
5 Member of the Nominating Committee

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Daniel I.C. Wang, Ph.D.
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Annual Meeting

Friday, June 15, 2001 at 10:00 a.m.
at the Company's offices at 12 Cambridge Center.
All shareholders are welcome.

Market for Securities

Biogen's securities are quoted on the NASDAQ National Market System.
Common stock symbol: BGEN.

As of March 7, 2001, there were approximately 2,654 holders of record of the Company's Common Stock. The Company has not paid any cash dividends on its Common Stock since its inception, and does not intend to pay any dividends in the foreseeable future. On June 25, 1999 the Company effected a two-for-one stock split of its Common Stock. The quarterly high and low closing sale prices (adjusted to reflect the stock split) of the Company's Common Stock on the NASDAQ National Market System for 2000 and 1999 are as follows:

	High	Low
Fiscal 2000		
First Quarter	119 1/2	69 7/8
Second Quarter	72 3/4	49 3/4
Third Quarter	74 3/4	53
Fourth Quarter	64 1/4	51 1/2
Fiscal 1999		
First Quarter	58 19/32	39 19/32
Second Quarter	64 5/16	46 3/16
Third Quarter	89 3/16	63 1/16
Fourth Quarter	88 1/16	64 3/8

SEC Form 10-K

A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K is available without charge upon written request to the:
Corporate Communications Department
Biogen, Inc.
14 Cambridge Center
Cambridge, MA 02142

Transfer Agent

For shareholder questions regarding lost certificates, address changes and changes of ownership or name in which the shares are held, direct inquiries to:
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www.EquiServe.com

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Boston, MA 02111

News Releases

As a service to our shareholders and prospective investors, copies of Biogen news releases issued in the last 12 months are now available almost immediately 24 hours a day, seven days a week, on the Internet's World Wide Web at http://www.prnewswire.com and via automated fax by calling "Company News On Call" at 1 800 758-5804, ext. 101550. Biogen news releases are usually posted on both systems within one hour of being issued and are available at no cost.

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