BIOGEN IDEC INC.
Form 10-Q
April 21, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2011

OR

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

Commission File Number 0-19311

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

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

133 Boston Post Road, Weston, MA 02493
(781) 464-2000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

The number of shares of the issuer s Common Stock, $0.0005 par value, outstanding as of April 18, 2011, was 241,632,189 shares.

BIOGEN IDEC INC.

FORM 10-Q Quarterly Report
For the Quarterly Period Ended March 31, 2011

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains forward-looking statements that are based on our current beliefs and expectations. These forward-looking statements may be accompanied by such words as anticipate, believe, estimate, expect, forecast, intend, may, plan, project, target, will and other words and terms of simila Reference is made in particular to forward-looking statements regarding:

- the anticipated amount, mix and timing of future product sales, joint business revenues, accounts receivable, foreign earnings, royalty revenues or obligations, milestone payments, expenses, investments, currency hedges, and amortization of intangible assets;
- the growth trends for TYSABRI and our ability to improve the benefit-risk profile of TYSABRI;
- the development of and milestone payments resulting from the commercialization of BG-12;
- the incidence, timing, outcome and impact of litigation, proceedings related to patents and other intellectual property rights, tax audits and assessments and other legal proceedings;
- the timing and impact of accounting standards;
- the design, costs, development and timing of, and therapeutic area and indications targeted by, programs in our clinical pipeline;
- the timing and outcome of regulatory filings and communications with regulatory authorities;
- the impact and interpretation of U.S. healthcare reform, including the annual fee on prescription drug manufacturers, and other measures designed to reduce healthcare costs;
- the impact of the global macroeconomic environment and the deterioration of the credit and economic conditions in certain countries in Europe;
- our ability to finance our operations and business initiatives and obtain funding for such activities;
- the opportunistic return of cash to shareholders and use of shares from our repurchase programs;
- the structure, strategy, financial and operational impact, and timing of our framework for growth;
- the status, use, location, quality of and financial impact of our manufacturing facilities and other properties; and
- the drivers for growing our business, including our plans to pursue external business development and research opportunities, and the impact of competition.

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

NOTE REGARDING COMPANY AND PRODUCT REFERENCES

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

NOTE REGARDING TRADEMARKS

AVONEX® and RITUXAN® are registered trademarks of Biogen Idec. FUMADERM™ and AVONEX PEN™ are trademarks of Biogen Idec. TYSABRI® is a registered trademark of Elan Pharmaceuticals, Inc. The following are trademarks of the respective companies listed: ANGIOMAX® and ANGIOX® The Medicines Company; ARZERRA™ Glaxo Group Limited; BETASERON® and BETAFERON® Bayer Schering Pharma AG; EXTAVIA® Novartis AG; and REBIF® Ares Trading S.A.

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PART I FINANCIAL INFORMATION

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

	For the Three Months Ended March 31,	
	2011	**2010**
Revenues:		
Product	$ 907,102	$ 824,220
Unconsolidated joint business	256,124	254,928
Other	40,116	29,712
Total revenues	1,203,342	1,108,860
Cost and expenses:		
Cost of sales, excluding amortization of acquired intangible assets	103,113	97,055
Research and development	293,633	307,030
Selling, general and administrative	244,516	248,664
Collaboration profit sharing	74,794	63,557
Amortization of acquired intangible assets	53,216	48,889
Restructuring charge	16,587	
Acquired in-process research and development		39,976
Fair value adjustment of contingent consideration	1,200	
Total cost and expenses	787,059	805,171
Income from operations	416,283	303,689
Other income (expense), net	9,951	(8,386)
Income before income tax expense	426,234	295,303
Income tax expense	117,468	75,310
Net income	308,766	219,993
Net income attributable to noncontrolling interests, net of tax	14,435	2,551
Net income attributable to Biogen Idec Inc.	$ 294,331	$ 217,442
Net income per share:		
Basic earnings per share attributable to Biogen Idec Inc.	$ 1.22	$ 0.80
Diluted earnings per share attributable to Biogen Idec Inc.	$ 1.20	$ 0.80
Weighted-average shares used in calculating:		

Basic earnings per share attributable to Biogen Idec Inc.	241,536	269,922
Diluted earnings per share attributable to Biogen Idec Inc.	244,551	272,703

See accompanying notes to these unaudited condensed consolidated financial statements

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

	As of March 31, 2011	As of December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 790,675	$ 759,598
Marketable securities	437,870	448,146
Accounts receivable, net	687,609	605,329
Due from unconsolidated joint business	230,610	222,459
Inventory	295,260	289,066
Other current assets	186,291	215,822
Total current assets	2,628,315	2,540,420
Marketable securities	885,444	743,101
Property, plant and equipment, net	1,673,502	1,641,634
Intangible assets, net	1,731,844	1,772,826
Goodwill	1,146,314	1,146,314
Investments and other assets	228,105	248,198
Total assets	$ 8,293,524	$ 8,092,493
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of notes payable, line of credit and other financing arrangements	$ 134,779	$ 137,153
Taxes payable	93,483	84,517
Accounts payable	159,136	162,529
Accrued expenses and other	591,448	665,923
Total current liabilities	978,846	1,050,122
Notes payable and line of credit	1,065,613	1,066,379
Long-term deferred tax liability	218,504	200,950
Other long-term liabilities	356,261	325,599
Total liabilities	2,619,224	2,643,050
Commitments and contingencies (Notes 2, 16, 18 and 19)		
Equity:		
Biogen Idec Inc. shareholders equity		
Preferred stock, par value $0.001 per share		

Common stock, par value $0.0005 per share	125	124
Additional paid-in capital	3,975,428	3,895,103
Accumulated other comprehensive income (loss)	(992)	(21,610)
Retained earnings	2,166,813	1,872,481
Treasury stock, at cost	(537,215)	(349,592)
Total Biogen Idec Inc. shareholders equity	5,604,159	5,396,506
Noncontrolling interests	70,141	52,937
Total equity	5,674,300	5,449,443
Total liabilities and equity	$ 8,293,524	$ 8,092,493

See accompanying notes to these unaudited condensed consolidated financial statements

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

	For the Three Months Ended March 31,	
	2011	**2010**
Cash flows from operating activities:		
Net income	$ 308,766	$ 219,993
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization of property, plant and equipment and intangible assets	92,545	82,510
Acquired in-process research and development		39,976
Share-based compensation	33,119	51,006
Fair value adjustment of contingent consideration	1,200	
Excess tax benefit from share-based compensation	(10,060)	(4,379)
Deferred income taxes	71,974	8,042
Write-down of inventory to net realizable value	1,170	2,289
Impairment of marketable securities, investments and other assets	1,210	16,111
Non-cash interest (income) expense and foreign exchange remeasurement loss (gain), net	2,688	3,982
Realized gain on sale of marketable securities and strategic investments	(15,897)	(4,985)
Changes in operating assets and liabilities, net:		
Accounts receivable	(90,712)	(20,201)
Due from unconsolidated joint business	(8,151)	(11,439)
Inventory	(6,498)	12,264
Other assets	(17,154)	(13,463)
Accrued expenses and other current liabilities	(149,063)	(82,854)
Other liabilities and taxes payable	38,441	38,043
Net cash flows provided by operating activities	253,578	336,895
Cash flows from investing activities:		
Proceeds from sales and maturities of marketable securities	788,083	1,029,307
Purchases of marketable securities	(908,730)	(699,677)
Acquisitions		(39,976)
Purchases of property, plant and equipment	(32,143)	(38,209)
Purchases of intangible assets	(10,962)	
Purchases of other investments	(2,878)	(1,708)
Proceeds from the sale of strategic investments	39,835	
Net cash flows (used in) provided by investing activities	(126,795)	249,737
Cash flows from financing activities:		
Purchase of treasury stock	(195,287)	(577,580)
Proceeds from issuance of stock for share-based compensation arrangements	91,155	52,818
Excess tax benefit from share-based compensation	10,060	4,379

Change in cash overdraft	(2,466)	(1,826)
Net contributions from noncontrolling interests		760
Repayments of borrowings	(2,113)	(2,011)
Repayments on financing arrangement for the sale of the San Diego facility	(1,181)	
Net cash flows used in financing activities	(99,832)	(523,460)
Net increase in cash and cash equivalents	26,951	63,172
Effect of exchange rate changes on cash and cash equivalents	4,126	(5,502)
Cash and cash equivalents, beginning of the period	759,598	581,889
Cash and cash equivalents, end of the period	$ 790,675	$ 639,559

See accompanying notes to these unaudited condensed consolidated financial statements

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BIOGEN IDEC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Business

Overview

Biogen Idec is a global biotechnology company focused on discovering, developing, manufacturing and marketing products for the treatment of serious diseases with a focus on neurological disorders. We currently have four marketed products: AVONEX, RITUXAN, TYSABRI, and FUMADERM. Our marketed products are used for the treatment of multiple sclerosis (MS), non-Hodgkin s lymphoma (NHL), rheumatoid arthritis (RA), Crohn s disease, chronic lymphocytic leukemia (CLL), and psoriasis.

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial statements for interim periods in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The information included in this quarterly report on Form 10-Q should be read in conjunction with our consolidated financial statements and the accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K). Our accounting policies are described in the Notes to Consolidated Financial Statements in our 2010 Form 10-K and updated, as necessary, in this Form 10-Q. The year-end condensed consolidated balance sheet data presented for comparative purposes was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the operating results for the full year or for any other subsequent interim period.

Consolidation

Our condensed consolidated financial statements reflect our financial statements, those of our wholly-owned subsidiaries and those of certain variable interest entities in which we are the primary beneficiary. For such consolidated entities in which we own less than a 100% interest, we record net income (loss) attributable to noncontrolling interests in our consolidated statement of income equal to the percentage of the economic or ownership interest retained in the collaborative arrangement or joint venture by the respective noncontrolling parties. All material intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of an entity, we apply a qualitative approach, that determines whether we have both (1) the power to direct the economically significant activities of the entity and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to that entity. These considerations impact the way we account for our existing collaborative and joint venture relationships and determine the consolidation of companies or entities with which we have collaborative or other arrangements. Determination about whether an enterprise should consolidate a variable interest entity is required to be evaluated continuously as changes to existing relationships or future transactions may result in us consolidating or deconsolidating our partner(s) to collaborations and other arrangements.

Use of Estimates

The preparation of our condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates, judgments, and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments and methodologies, including those related to revenue recognition and related allowances, our collaborative relationships, clinical trial expenses, the consolidation of variable interest entities, the valuation of contingent consideration resulting from a business combination, the

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BIOGEN IDEC INC. AND SUBSIDIARIES

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(unaudited, continued)

valuation of acquired intangible assets including in-process research and development, inventory, impairment and amortization of long-lived assets including intangible assets, impairments of goodwill, share-based compensation, income taxes including the valuation allowance for deferred tax assets, valuation of investments, derivatives and hedging activities, contingencies, litigation, and restructuring charges. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Subsequent Events

We did not have any material recognizable subsequent events. However, we did have the following unrecognizable subsequent event:

In April 2011, we agreed to terminate our collaboration with Vernalis plc (Vernalis) for the development and commercialization of an adenosine A2a receptor antagonist for treatment of Parkinson s disease effective April 11, 2011. Under the terms of the agreement, we will return the program to Vernalis and have no further license to, or continuing involvement in the development of, this compound and its related intellectual property. In exchange, we will receive a royalty on future net sales if this compound is ultimately commercialized. We funded development costs through the effective date and have no other remaining development obligations after that date. Development expense incurred by this collaboration in 2011 was insignificant.

2. Acquisitions

Acquisition of Panima Pharmaceuticals AG

On December 17, 2010, we completed our acquisition of 100% of the stock of Panima Pharmaceuticals AG (Panima), an affiliate of Neurimmune AG. The purchase price was comprised of a $32.5 million cash payment, plus up to $395.0 million in contingent consideration payable upon the achievement of development milestones. Panima is a business involved in the discovery of antibodies designed to treat neurological disorders.

Upon acquisition, we recorded a liability of $81.2 million representing the acquisition date fair value of the contingent consideration. As of March 31, 2011, the fair value of the total contingent consideration obligation reflected within our condensed consolidated balance sheet was $82.4 million, of which $4.9 million was reflected as a component of accrued expenses and other and $77.5 million was reflected as a component of other long-term liabilities. The change in fair value of this obligation was recognized as a fair value adjustment of contingent consideration within our condensed consolidated statement of income for the three months ended March 31, 2011. For additional information related to this transaction, please read Note 2, *Acquisitions* to our consolidated financial statements included within our 2010 Form 10-K.

Acquisition of Biogen Idec Hemophilia Inc.

In connection with our acquisition of Biogen Idec Hemophilia Inc. (BIH), formerly Syntonix Pharmaceuticals, Inc. (Syntonix), in January 2007, we agreed to make additional future consideration payments based upon the achievement of certain milestone events associated with the development of BIH s lead product, long-lasting recombinant Factor

IX, a product for the treatment of hemophilia B. One of these milestones was achieved when, in January 2010, we initiated patient enrollment in a registrational trial of Factor IX. As a

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BIOGEN IDEC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, continued)

result of the achievement of this milestone, we paid approximately $40.0 million to the former shareholders of Syntonix. We recorded this payment as a charge to acquired in-process research and development within our condensed consolidated statement of income for the three months ended March 31, 2010, in accordance with the accounting standard applicable to business combinations when we acquired BIH.

3. Restructuring

In November 2010, we announced a number of strategic, operational, and organizational initiatives designed to provide a framework for the future growth of our business and realign our overall structure to become a more efficient and cost effective organization. As part of this initiative:

We have terminated or are in the process of discontinuing certain research and development programs, including those in oncology and cardiovascular medicine that are no longer a strategic fit for our Company.

We have substantially completed a 13% reduction in workforce spanning our sales, research and development, and administrative functions.

We are in the process of vacating the San Diego, California facility and consolidating our Massachusetts facilities. In October 2010, we sold the San Diego facility and agreed to lease back the facility for a period of 15 months. In January 2011, we entered into an agreement to terminate this lease effective August 31, 2011. For a more detailed description of these transactions, please read Note 11, *Property, Plant and Equipment* to these condensed consolidated financial statements.

We expect to incur total restructuring charges of approximately $110.0 million associated with the implementation of these initiatives. Costs associated with our workforce reduction primarily relate to employee severance and benefits. Facility consolidation costs are primarily comprised of charges associated with the closing of facilities, related lease obligations and additional depreciation recognized when the expected useful lives of certain assets have been shortened due to the consolidation and closing of related facilities and the discontinuation of certain research and development programs.

For the three months ended March 31, 2011, we recognized restructuring charges totaling $16.6 million within our condensed consolidated statement of income, comprised of approximately $12.1 million for workforce reduction and $4.5 million for facility consolidation, of which $3.5 million relates to additional depreciation. We previously recognized $75.2 million of restructuring charges within our consolidated statement of income during the fourth quarter of 2010. We expect that our restructuring efforts will be substantially completed, and that substantially all of the remaining restructuring charges will be incurred and paid by the end of 2011.

The following table summarizes the activity of our restructuring liability:

(In millions)	**Workforce Reduction**	**Facility Consolidation**	**Total**
Restructuring reserve as of December 31, 2010	$ 60.6	$ 5.8	$ 66.4

Expense	10.5	0.9	11.4
(Payments) receipts, net	(64.0)	(0.4)	(64.4)
Adjustments to previous estimates, net	1.7		1.7
Other adjustments	8.6	(3.2)	5.4
Restructuring reserve as of March 31, 2011	$ 17.4	$ 3.1	$ 20.5

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BIOGEN IDEC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, continued)

4. Revenue Recognition

We recognize revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; our price to the customer is fixed or determinable; and collectability is reasonably assured.

Product Revenues

Revenues from product sales are recognized when title and risk of loss have passed to the customer, which is typically upon delivery. However, sales of TYSABRI in the U.S. are recognized on the sell-through model, that is, upon shipment of the product by Elan Pharma International, Ltd. (Elan), an affiliate of Elan Corporation, plc, to its third party distributor rather than upon shipment to Elan. Product revenues are recorded net of applicable reserves for discounts and allowances. Our product revenue reserves are based on estimates of the amounts earned or to be claimed on the related sales. These estimates take into consideration our historical experience, current contractual requirements and statutory requirements, specific known market events and trends and forecasted customer buying patterns.

Reserves for Discounts and Allowances

We establish reserves for trade term discounts, wholesaler incentives, Medicaid rebates, Veterans Administration (VA) and Public Health Service (PHS) discounts, managed care rebates, product returns and other governmental rebates or applicable allowances. Reserves established for these discounts and allowances are classified as reductions of accounts receivable (if the amount is payable to our customer) or a liability (if the amount is payable to a party other than our customer). In addition, we distribute no-charge product to qualifying patients under our patient assistance and patient replacement goods program. This program is administered through one of our distribution partners, which ships product to qualifying patients from its own inventory received from us. Gross revenue and the related reserves are not recorded on product shipped under this program and cost of sales is recorded when the product is shipped.

Product revenue reserves are categorized as follows: discounts, contractual adjustments and returns. Our estimates take into consideration our historical experience, current contractual and statutory requirements, specific known market events and trends and forecasted customer buying patterns. Actual amounts may ultimately differ from our estimates.

An analysis of the amount of, and change in, reserves is summarized as follows:

(In millions)	Discounts	Contractual Adjustments	Returns	Total
Balance, as of December 31, 2010	$ 13.9	$ 107.0	$ 21.1	$ 142.0
Current provisions relating to sales in current year	23.8	91.5	3.8	119.1
Adjustments relating to prior years		(5.4)	(1.0)	(6.4)
Payments/returns relating to sales in current year	(10.4)	(22.3)	(0.2)	(32.9)
Payments/returns relating to sales in prior years	(12.4)	(46.6)	(1.4)	(60.4)

Balance, as of March 31, 2011	$ 14.9	$ 124.2	$ 22.3	$ 161.4

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, continued)

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

(In millions)	As of March 31, 2011	As of December 31, 2010
Reduction of accounts receivable	$ 38.5	$ 36.7
Current liability	122.9	105.3
Total reserves	$ 161.4	$ 142.0

Revenues from Unconsolidated Joint Business

We collaborate with Genentech on the development and commercialization of RITUXAN. Revenues from unconsolidated joint business consist of (1) our share of pre-tax co-promotion profits in the U.S.; (2) reimbursement of our selling and development expense in the U.S.; and (3) revenue on sales of RITUXAN in the rest of world, which consists of our share of pretax co-promotion profits in Canada and royalty revenue on sales of RITUXAN outside the U.S. and Canada by F. Hoffmann-La Roche Ltd. (Roche) and its sublicensees. Pre-tax co-promotion profits are calculated and paid to us by Genentech in the U.S. and by Roche in Canada. Pre-tax co-promotion profits consist of U.S. and Canadian sales of RITUXAN to third-party customers net of discounts and allowances less the cost to manufacture RITUXAN, third-party royalty expenses, distribution, selling and marketing, and development expenses incurred by Genentech, Roche and us. We record our share of the pretax co-promotion profits in Canada and royalty revenues on sales of RITUXAN outside the U.S. on a cash basis. Additionally, our share of the pretax co-promotion profits in the U.S. includes estimates supplied by Genentech.

Royalty Revenues

We receive royalty revenues on sales by our licensees of other products covered under patents that we own. There are no future performance obligations on our part under these license arrangements. We record 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 that have been paid to us, adjusted for any changes in facts and circumstances, as appropriate. We maintain regular communication with our licensees in order to assess the reasonableness of our estimates. Differences between actual royalty revenues and estimated royalty revenues are adjusted in the period in which they become known, typically the following quarter. Historically, adjustments have not been material when compared to actual amounts paid by licensees. If we are ever unable to accurately estimate revenue, then we record revenues on a cash basis.

5. Accounts Receivable

Our accounts receivable primarily arise from product sales in the U.S. and Europe and primarily represent amounts due from our wholesale distributors, large pharmaceutical companies, public hospitals and other government entities.

The majority of our accounts receivable have standard payment terms which are generally between 30 and 90 days. We monitor the financial performance and credit worthiness of our large customers so that we can properly assess and respond to changes in their credit profile. We provide reserves against trade receivables for estimated losses that may result from a customer s inability to pay. Amounts determined to be uncollectible are charged or written-off against the reserve. To date, such losses have not exceeded management s estimates.

Concentrations of credit risk with respect to receivables, which are typically unsecured, are limited due to the wide variety of customers and markets using our products, as well as their dispersion across many different geographic areas. We continue to monitor economic conditions, including volatility associated with

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BIOGEN IDEC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited, continued)

international economies, and related impacts on the relevant financial markets and our business, especially in light of sovereign credit issues. The credit and economic conditions within Italy, Spain, Portugal and Greece, among other members of the European Union, have deteriorated throughout 2010. These conditions have resulted in, and may continue to result in, an increase in the average length of time that it takes to collect on our accounts receivable outstanding in these countries. As of March 31, 2011, our accounts receivable balances in Italy, Spain and Portugal were $141.3 million, $113.9 million, and $28.7 million, respectively, totaling approximately $283.9 million. Approximately $70.0 million of this amount was outstanding for greater than one year. As of March 31, 2011, we had $69.6 million of receivables that are expected to be collected beyond one year, which are included as a component of investments and other assets within our condensed consolidated balance sheets.

Our concentrations of credit risk related to our accounts receivable from product sales in Greece to date have been limited as our receivables within this market are due from our distributor. As of March 31, 2011, our accounts receivable balances due from our distributor in Greece totaled $7.1 million. These receivables remain current and substantially in compliance with their contractual due dates.

To date, we have not experienced any significant losses or write-offs with respect to the collection of our accounts receivable in these countries.

6. Inventory

The components of inventory are summarized as follows:

(In millions)	As of March 31, 2011	As of December 31, 2010
Raw materials	$ 62.1	$ 59.0
Work in process	147.4	142.2
Finished goods	85.8	87.9
Total inventory	$ 295.3	$ 289.1

7. Intangible Assets and Goodwill

Intangible Assets

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

		As of March 31, 2011			As of December 31, 2010		
(In millions)	Estimated Life	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net

Out-licensed patents	12 years	$ 578.0	$ (360.5)	$ 217.5	$ 578.0	$ (350.2)	$ 227.8
Core developed technology	15-23 years	3,005.3	(1,679.6)	1,325.7	3,005.3	(1,636.9)	1,368.4
In-process research and development	Up to 15 years upon commercialization	110.9		110.9	110.9		110.9
Trademarks and tradenames	Indefinite	64.0		64.0	64.0		64.0
In-licensed patents	Up to 14 years	15.3	(1.6)	13.7	3.0	(1.3)	1.7
Assembled workforce	4 years	2.1	(2.1)		2.1	(2.1)	
Distribution rights	2 years	12.7	(12.7)		12.7	(12.7)	
Total intangible assets		$ 3,788.3	$ (2,056.5)	$ 1,731.8	$ 3,776.0	$ (2,003.2)	$ 1,772.8

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Our most significant intangible asset is the core technology related to our AVONEX product. The net book value of this asset as of March 31, 2011 was $1,312.1 million. For the three months ended March 31, 2011 and 2010, amortization for acquired intangible assets totaled $53.3 million and $48.9 million, respectively, and is expected to be in the range of approximately $180.0 million to $220.0 million annually through 2015.

In the first quarter of 2011, we entered into a license agreement granting us exclusive patent rights for the diagnostic and therapeutic application of recombinant virus-like particles, known as VP1 proteins. These VP1 proteins are used to detect antibodies of the JC virus (JCV) in serum or blood. Under the terms of this agreement, we expect to make payments totaling approximately $46.2 million through 2016. These payments include upfront and milestone payments as well as the greater of an annual maintenance fee or usage-based royalty payment. As of March 31, 2011, we recognized an intangible asset in the amount of $12.3 million, reflecting the total of upfront and other time-based milestone payments expected to be made. We will further capitalize additional payments due under this arrangement as an intangible asset as they become payable. We will amortize the intangible asset resulting from these payments utilizing an economic consumption amortization model with the amount of amortization determined by the ratio of actual JCV assay tests performed in the current period to the total number of JCV assay tests expected to be performed through 2016.

Other than the amounts recorded in connection with the license agreement described above, intangible assets were unchanged as of March 31, 2011 compared to December 31, 2010, excluding the impact of the amortization.

Goodwill

Our goodwill balance remained unchanged as of March 31, 2011 compared to December 31, 2010. As of March 31, 2011, we had no accumulated impairment losses.

8. Fair Value Measurements

A majority of our financial assets and liabilities have been classified as Level 2. Our financial assets and liabilities (which include our cash equivalents, derivative contracts, marketable debt securities, and plan assets for deferred compensation) have been initially valued at the transaction price and subsequently valued, at the end of each reporting period, typically utilizing third party pricing services or other market observable data. The pricing services utilize industry standard valuation models, including both income and market based approaches and observable market inputs to determine value. These observable market inputs include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers, current spot rates and other industry and economic events. We validate the prices provided by our third party pricing services by reviewing their pricing methods and matrices, obtaining market values from other pricing sources, analyzing pricing data in certain instances and confirming that the relevant markets are active. After completing our validation procedures, we did not adjust or override any fair value measurements provided by our pricing services as of March 31, 2011 and December 31, 2010.

Our strategic investments in publicly traded equity securities are classified as Level 1 assets as their fair values are readily determinable and based on quoted market prices.

We also maintain certain investments classified as Level 3 whose fair value is initially measured at transaction prices and subsequently valued using the pricing of recent financing or by reviewing the underlying economic fundamentals and liquidation value of the companies. Our venture capital investments are the only investments for which we used Level 3 inputs to determine the fair value and represented approximately 0.2% and 0.3% of our total assets as of March 31, 2011 and December 31, 2010, respectively. These investments

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include investments in certain biotechnology oriented venture capital funds which primarily invest in small privately-owned, venture-backed biotechnology companies. The fair value of our investments in these venture capital funds has been estimated using the net asset value of the fund. The investments cannot be redeemed within the funds. Distributions from each fund will be received as the underlying investments of the fund are liquidated. The funds and therefore a majority of the underlying assets of the funds will not be liquidated in the near future. The underlying assets in these funds are initially measured at transaction prices and subsequently valued using the pricing of recent financings or by reviewing the underlying economic fundamentals and liquidation value of the companies that the funds invest in. We apply judgments and estimates when we validate the prices provided by third parties. While we believe the valuation methodologies are appropriate, the use of valuation methodologies is highly judgmental and changes in methodologies can have a material impact on our results of operations. Gains and losses (realized and unrealized) included in earnings for the period are reported in other income (expense), net.

In addition, during the fourth quarter of 2010, we recognized an in-process research and development asset and recorded a contingent consideration obligation related to our acquisition of Panima. The amount allocated to in-process research and development represents the fair value of the three programs acquired and was based on comparable transactions and a risk-adjusted estimate of future cash flows determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting revenue from the projects, and discounting the net cash flows to present value. We determined the fair value of the contingent consideration obligation based upon probability-weighted assumptions related to the achievement of certain milestone events and thus the likelihood of us making payments. These fair value measurements are based on inputs not observable in the market and therefore represent Level 3 measurements. We revalue the acquisition-related contingent consideration obligation on a recurring basis each reporting period and assess the in-process research and development asset for impairment at least annually until commercialization of the underlying programs after which time the asset will be amortized over its estimated useful life.

Our Level 3 contingent consideration obligation as of March 31, 2011 and December 31, 2010 was $82.4 million and $81.2 million, respectively. These valuations were determined based upon net cash outflow projections of $395.0 million, discounted using a rate of 6.0% and 6.1%, respectively, which is the cost of debt financing for market participants. The change in fair value of this obligation, of $1.2 million, was primarily due to changes in the expected timing related to the achievement of certain developmental milestones and was recognized as a fair value adjustment of contingent consideration within our condensed consolidated statement of income for the three months ended March 31, 2011.

There were no transfers between fair value measurement levels during the three months ended March 31, 2011.

The tables below present information about our financial assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010, and indicate the fair value hierarchy of the valuation techniques we utilized to determine such fair value:

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(In millions)	Balance as of March 31, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 679.4	$	$ 679.4	$
Marketable debt securities:				
Corporate debt securities	343.4		343.4	
Government securities	865.1		865.1	
Mortgage and other asset backed securities	114.8		114.8	
Strategic investments	2.0	2.0		
Venture capital investments	20.5			20.5
Derivative contracts	0.2		0.2	
Plan assets for deferred compensation	14.6		14.6	
Total	$ 2,040.0	$ 2.0	$ 2,017.5	$ 20.5
Liabilities:				
Derivative contracts	$ 32.1	$	$ 32.1	$
Acquisition-related contingent consideration	82.4			82.4
Total	$ 114.5	$	$ 32.1	$ 82.4

(In millions)	Balance as of December 31, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 651.8	$	$ 651.8	$
Marketable debt securities:				
Corporate debt securities	313.0		313.0	
Government securities	785.3		785.3	

Mortgage and other asset backed securities		92.9				92.9		
Strategic investments		44.8		44.8				
Venture capital investments		20.8						20.8
Derivative contracts		1.3				1.3		
Plan assets for deferred compensation		13.0				13.0		
Total	$	1,922.9	$	44.8	$	1,857.3	$	20.8
Liabilities:								
Derivative contracts	$	12.2	$		$	12.2	$	
Acquisition-related contingent consideration		81.2						81.2
Total	$	93.4	$		$	12.2	$	81.2

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The following table provides a roll forward of the fair value of our venture capital investments, which are all Level 3 assets:

(In millions)	For the Three Months Ended March 31, 2011	2010
Beginning balance, January 1	$ 20.8	$ 21.9
Unrealized gains included in earnings	0.6	
Unrealized losses included in earnings	(1.0)	(1.5)
Purchases	0.1	0.4
Issuances		
Settlements		
Ending balance, March 31	$ 20.5	$ 20.8

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

(In millions)	As of March 31, 2011 Fair Value	As of March 31, 2011 Carrying Value	As of December 31, 2010 Fair Value	As of December 31, 2010 Carrying Value
Credit line from Dompé	$ 6.4	$ 6.3	$ 8.1	$ 8.0
Notes payable to Fumedica	24.7	22.7	24.2	22.0
6.0% Senior Notes due 2013	482.1	449.8	485.5	449.8
6.875% Senior Notes due 2018	623.3	596.5	618.0	597.9
Total	$ 1,136.5	$ 1,075.3	$ 1,135.8	$ 1,077.7

The fair values of our credit line from Dompé and our note payable to Fumedica were estimated using market observable inputs, including current interest and foreign currency exchange rates. The fair value of our Senior Notes was determined through market, observable, and corroborated sources.

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9. Financial Instruments

Marketable Securities, including Strategic Investments

The following tables summarize our marketable securities and strategic investments:

As of March 31, 2011 (In millions):	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Available-for-sale				
Corporate debt securities				
Current	$ 117.8	$ 0.2	$	$ 117.6
Non-current	225.6	0.7	(0.5)	225.4
Government securities				
Current	317.8	0.2		317.6
Non-current	547.3	0.2	(0.6)	547.7
Mortgage and other asset backed securities				
Current	2.2			2.2
Non-current	112.6	0.5	(0.3)	112.4
Total available-for-sale securities	$ 1,323.3	$ 1.8	$ (1.4)	$ 1,322.9
Other Investments				
Strategic investments, non-current	$ 2.0	$ 0.5	$	$ 1.5

As of December 31, 2010 (In millions):	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Available-for-sale				
Corporate debt securities				
Current	$ 93.2	$ 0.1	$	$ 93.1
Non-current	219.8	2.1	(0.5)	218.2
Government securities				
Current	352.8	0.2		352.6
Non-current	432.5	0.6	(0.6)	432.5
Mortgage and other asset backed securities				
Current	2.1			2.1
Non-current	90.8	0.5	(0.2)	90.5

Total available-for-sale securities	$ 1,191.2	$ 3.5	$ (1.3)	$ 1,189.0
Other Investments				
Strategic investments, non-current	$ 44.8	$ 17.5	$	$ 27.3

In the tables above, as of March 31, 2011 and December 31, 2010, government securities included $198.8 million and $163.5 million, respectively, of Federal Deposit Insurance Corporation (FDIC) guaranteed senior notes issued by financial institutions under the Temporary Liquidity Guarantee Program.

Certain commercial paper and short-term debt securities with original maturities of less than 90 days are included in cash and cash equivalents on the accompanying condensed consolidated balance sheets and are not

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included in the tables above. As of March 31, 2011 and December 31, 2010, the carrying value of our commercial paper, including accrued interest, was $89.8 million and $30.0 million, respectively. As of March 31, 2011 and December 31, 2010, the carrying value of our short-term debt securities was $589.6 million and $621.8 million, respectively. The carrying values of our commercial paper, including accrued interest, and our short-term debt securities approximate fair value.

Summary of Contractual Maturities: Available-for-Sale Securities

The estimated fair value and amortized cost of securities, excluding strategic investments, available-for-sale by contractual maturity are summarized as follows:

	As of March 31, 2011		As of December 31, 2010	
(In millions)	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**
Due in one year or less	$ 437.8	$ 437.4	$ 448.1	$ 447.8
Due after one year through five years	774.7	774.7	664.1	662.4
Due after five years	110.8	110.8	79.0	78.8
Total	$ 1,323.3	$ 1,322.9	$ 1,191.2	$ 1,189.0

The average maturity of our marketable securities as of March 31, 2011 and December 31, 2010 was 12 months and 11 months, respectively.

Proceeds from Marketable Securities

The proceeds from maturities and sales of marketable securities, excluding strategic investments and resulting realized gains and losses, are generally reinvested, and are summarized as follows:

	For the Three Months Ended March 31,	
(In millions)	**2011**	**2010**
Proceeds from maturities and sales	$ 788.1	$ 1,029.3
Realized gains	$ 2.4	$ 5.7
Realized losses	$ (0.8)	$ 0.7

During the first quarter of 2011, we also recognized within other income (expense), net a gain of $13.8 million on the sale of stock from our strategic investment portfolio.

Impairments

We conduct periodic reviews to identify and evaluate each investment that has an unrealized loss, in accordance with the meaning of other-than-temporary impairment and its application to certain investments.

For the three months ended March 31, 2011, we recognized $1.2 million in charges for the impairment of our investments in venture capital funds and investments in privately-held companies. No impairments were recognized in relation to our publicly-held strategic investments.

For the three months ended March 31, 2010, we recognized $15.8 million in charges for the impairment of our publicly-held strategic investments, investments in venture capital funds and investments in privately-held companies, which was primarily due to one of our strategic investments executing an equity offering at a price below our cost basis during the first quarter of 2010.

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10. Derivative Instruments

Foreign Currency Forward Contracts

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

Foreign currency forward contracts in effect as of March 31, 2011 and December 31, 2010 had durations of 1 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 accumulated other comprehensive income (loss). Realized gains and losses for the effective portion of such contracts are recognized in revenue when the sale of product in the currency being hedged is recognized. To the extent ineffective, hedge transaction gains and losses are reported in other income (expense), net.

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

	Notional Amount	
Foreign Currency: (In millions)	**As of March 31, 2011**	**As of December 31, 2010**
Euro	$ 564.0	$ 460.3
Canadian dollar	17.2	24.0
Swedish krona	7.3	9.9
Total foreign currency forward contracts	$ 588.5	$ 494.2

The portion of the fair value of these foreign currency forward contracts that was included in accumulated other comprehensive income (loss) within total equity reflected net losses of $30.4 million and $11.0 million as of March 31, 2011 and December 31, 2010, respectively. We expect all contracts to be settled over the next 12 months and any amounts in accumulated other comprehensive income (loss) to be reported as an adjustment to revenue. We consider the impact of our and our counterparties credit risk on the fair value of the contracts as well as the ability of each party to execute its obligations under the contract. As of March 31, 2011 and December 31, 2010, credit risk did not materially change the fair value of our foreign currency forward contracts.

In relation to our foreign currency forward contracts, we recognized in other income (expense), net gains of $0.8 million and $0.1 million for the three months ended March 31, 2011 and 2010, respectively, due to hedge ineffectiveness.

In addition, we recognized in product revenue a net loss of $8.3 million and a net gain of $0.2 million for the three months ended March 31, 2011 and 2010, respectively, for the settlement of certain effective cash flow hedge instruments. These settlements were recorded in the same period as the related forecasted revenue.

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Summary of Derivatives Designated as Hedging Instruments

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

(In millions)	**Balance Sheet Location**	**Fair Value As of March 31, 2011**
Foreign Currency Contracts		
Asset derivatives	Other current assets	$
Liability derivatives	Accrued expenses and other	$ 29.6

(In millions)	**Balance Sheet Location**	**Fair Value As of December 31, 2010**
Foreign Currency Contracts		
Asset derivatives	Other current assets	$
Liability derivatives	Accrued expenses and other	$ 11.0

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

(In millions)	**Amount Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative Gain/(Loss) *(Effective Portion)***	**Income Statement Location *(Effective Portion)***	**Amount Reclassified from Accumulated Other Comprehensive Income (Loss) into Income Gain/(Loss) *(Effective Portion)***	**Income Statement Location *(Ineffective Portion)***	**Amount of Gain/(Loss) Recorded *(Ineffective Portion)***
For the Three Months Ended March 31, 2011:	$ (30.4)	Revenue	$ (8.3)	Other income (expense)	$ 0.8

Foreign currency contracts					
March 31, 2010:				Other income	
Foreign currency contracts	$ 32.0	Revenue	$ 0.2	(expense)	$ 0.1

Other Derivatives

We also enter into other foreign currency forward contracts, usually with one month durations, to mitigate the foreign currency risk related to certain balance sheet positions. We have not elected hedge accounting for these transactions.

The aggregate notional amount of our outstanding foreign currency contracts was $176.5 million as of March 31, 2011. The fair value of these contracts was a net liability of $2.3 million. Net losses of $4.9 million related to these contracts were recognized as a component of other income (expense), net, for the three months ended March 31, 2011.

11. Property, Plant and Equipment

Property, plant and equipment are recorded at historical cost, net of accumulated depreciation. Accumulated depreciation on property, plant and equipment was $789.9 million and $767.2 million as of March 31, 2011 and December 31, 2010, respectively.

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San Diego Facility

On October 1, 2010, we sold the San Diego facility for cash proceeds, net of transaction costs, of approximately $127.0 million. As part of this transaction, we agreed to lease back the San Diego facility for a period of 15 months. We are accounting for this transaction as a financing arrangement as we have determined that the transaction does not qualify as a sale due to our continuing involvement under the leaseback terms. Accordingly, we recorded an obligation for the proceeds received in October and the facility assets remain classified as held for use and the carrying value of the facility remains reflected as a component of property, plant and equipment, net within our condensed consolidated balance sheets as of March 31, 2011 and December 31, 2010. Our remaining obligation, which is reflected as a component of current portion of notes payable, line of credit and other financing arrangements within our condensed consolidated balance sheets, was $125.0 million and $125.9 million as of March 31, 2011 and December 31, 2010, respectively. We have not recognized a loss or impairment charge related to the San Diego facility.

In January 2011, we entered into an agreement to terminate our 15 month lease of the San Diego facility on August 31, 2011 and will have no continuing involvement or remaining obligation after that date. Once the lease arrangement has concluded we will account for the San Diego facility as a sale of property.

12. Equity

Preferred Stock

In March 2011, 8,221 shares of our Series A Preferred Stock, which represented all preferred shares outstanding, were converted into shares of common stock by the holder pursuant to the conversion terms of the Series A Preferred Stock. As a result we issued 493,260 shares of common stock and no other shares of Preferred Stock remain issued and outstanding as of March 31, 2011.

Share Repurchases

In February 2011, our Board of Directors authorized the repurchase of up to 20 million shares of our common stock. We expect to use this repurchase program principally to offset common stock issuance under our share-based compensation plans. This repurchase program does not have an expiration date. Under this authorization, we repurchased approximately 2.8 million shares of our common stock at a cost of $195.3 million during the first quarter of 2011. From April 1, 2011 through April 21, 2011, we repurchased an additional 1.0 million shares under this program at a total cost of $75.7 million. Approximately 16.2 million shares remain available for repurchase under the 2011 repurchase program.

For the three months ended March 31, 2010, we repurchased approximately 10.5 million shares at a cost of approximately $557.6 million under our 2009 stock repurchase authorization. We retired all of these shares as they were acquired. In connection with this retirement, in accordance with our policy, we recorded a reduction in additional paid-in-capital by the same amount.

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13. Comprehensive Income

The following tables reflect the activity in comprehensive income included within equity attributable to the shareholders of Biogen Idec, equity attributable to noncontrolling interests, and total equity:

	For the Three Months Ended March 31, 2011			For the Three Months Ended March 31, 2010		
(In millions)	**Biogen Idec Shareholders Equity**	**Noncontrolling Interests**	**Total Equity**	**Biogen Idec Shareholders Equity**	**Noncontrolling Interests**	**Total Equity**
Comprehensive income:						
Net income	$ 294.3	$ 14.4	$ 308.7	$ 217.4	$ 2.6	$ 220.0
Unrealized gains (losses) on securities available for sale	(11.8)		(11.8)	(2.9)		(2.9)
Unrealized gains (losses) on foreign currency forward contracts	(17.4)		(17.4)	27.9		27.9
Unrealized gains (losses) on pension benefit obligations				(0.1)		(0.1)
Currency translation adjustment	49.8	2.8	52.6	(52.4)	(2.6)	(55.0)
Total comprehensive income	$ 314.9	$ 17.2	$ 332.1	$ 189.9	$	$ 189.9

Unrealized holding gains (losses) on securities available for sale are shown net of tax of $6.9 million for the three months ended March 31, 2011, compared to $1.7 million in the prior year comparative period.

Unrealized gains (losses) on foreign currency forward contracts are shown net of tax of $2.0 million for the three months ended March 31, 2011, compared to $3.0 million in the prior year comparative period.

Unrealized gains (losses) on pension benefit obligations are shown net of tax as of March 31, 2011 and 2010. The effect of income taxes was negligible for both periods.

The following table reconciles equity attributable to noncontrolling interests:

	For the Three Months Ended March 31,	
(In millions)	**2011**	**2010**
Noncontrolling interests, beginning of period	$ 52.9	$ 40.4
Net income (loss) attributable to noncontrolling interests	14.4	2.6

Currency translation adjustment	2.8	(2.6)
Distributions to noncontrolling interests		
Capital contributions from noncontrolling interests		0.8
Noncontrolling interests, end of period	$ 70.1	$ 41.2

Total distributions to us from our joint ventures were negligible for the three months ended March 31, 2011 and 2010.

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14. Earnings per Share

Basic and diluted earnings per share are calculated as follows:

(In millions)	For the Three Months Ended March 31, 2011	2010
Numerator:		
Net income attributable to Biogen Idec Inc	$ 294.3	$ 217.4
Adjustment for net income allocable to preferred stock	(0.5)	(0.4)
Net income used in calculating basic and diluted earnings per share	$ 293.8	$ 217.0
Denominator:		
Weighted average number of common shares outstanding	241.5	269.9
Effect of dilutive securities:		
Stock options and employee stock purchase plan	1.2	1.1
Time-vested restricted stock units	1.6	1.7
Market stock units	0.2	
Performance-vested restricted stock units settled in shares		
Dilutive potential common shares	3.0	2.8
Shares used in calculating diluted earnings per share	244.5	272.7

The following amounts were not included in the calculation of net income per diluted share because their effects were anti-dilutive:

(In millions)	For the Three Months Ended March 31, 2011	2010
Numerator:		
Net income allocable to preferred stock	$ 0.5	$ 0.4
Denominator:		
Stock options	0.6	5.0
Time-vested restricted stock units		0.7
Market stock units		
Performance-vested restricted stock units settled in shares		

Convertible preferred stock	0.4	0.5
Total	1.0	6.2

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15. Share-based Payments

We grant stock options and restricted stock units to employees, officers, and directors under our current stock plan. The following table presents grants of stock options and restricted stock units:

	For the Three Months Ended March 31,	
	2011	**2010**
Stock options		120,000
Market stock units(a)	363,000	333,000
Cash settled performance shares(b)	467,000	370,000
Time-vested restricted stock units	1,220,000	1,600,000
Performance-vested restricted stock units(c)	1,000	4,000

(a) Market stock units (MSUs) granted for the three months ended March 31, 2010, represents target number of shares eligible to be earned at the time of grant.

MSUs granted for the three months ended March 31, 2011, includes approximately 347,000 MSUs granted in connection with our annual awards made in February 2011, representing the target number of shares eligible to be earned at the time of grant, and 16,000 additional MSUs issued in 2011 based upon the attainment of performance criteria set for 2010 in relation to shares granted in 2010.

(b) Cash settled performance shares (CSPSs) granted for the three months ended March 31, 2010, represents target number of shares eligible to be earned at the time of grant.

CSPSs granted for the three months ended March 31, 2011, includes approximately 379,000 CSPSs granted in connection with our annual awards made in February 2011, representing the target number of shares eligible to be earned at the time of grant, and approximately 88,000 additional CSPSs issued in 2011 based upon the attainment of performance criteria set for 2010 in relation to shares granted in 2010.

(c) Performance-vested restricted stock units (PVRSUs) granted for the three months ended March 31, 2010, represents target number of shares eligible to be earned at the time of grant; approximately 1,000 additional PVRSUs were issued in 2011 based upon the attainment of performance criteria set for 2010 in relation to shares granted in 2010.

In addition, for the three months ended March 31, 2011, approximately 185,000 shares were issued under the ESPP compared to approximately 200,000 shares issued in the prior year comparative period.

The following table summarizes share-based compensation expense included within our condensed consolidated statements of income:

(In millions)	For the Three Months Ended March 31, 2011	2010
Research and development	$ 19.1	$ 16.7
Selling, general and administrative	20.7	36.2
Restructuring charges	(0.6)	
Subtotal	39.2	52.9
Capitalized share-based compensation costs	(1.0)	(0.9)
Share-based compensation expense included in total costs and expenses	38.2	52.0
Income tax effect	(12.0)	(16.7)
Share-based compensation expense included in net income attributable to Biogen Idec Inc	$ 26.2	$ 35.3

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The following table summarizes share-based compensation expense associated with each of our share-based compensation programs:

(In millions)	For the Three Months Ended March 31, 2011	2010
Stock options	$ 1.1	$ 10.8
Market stock units	3.5	3.6
Time-vested restricted stock units	27.9	33.5
Performance-vested restricted stock units settled in shares	0.4	2.4
Cash settled performance shares	4.8	1.0
Employee stock purchase plan	1.5	1.6
Subtotal	$ 39.2	$ 52.9
Capitalized share-based compensation costs	(1.0)	(0.9)
Share-based compensation expense included in total costs and expenses	$ 38.2	$ 52.0

16. Income Taxes

For the three months ended March 31, 2011, our effective tax rate was 27.6%, compared to 25.5% in the prior year comparative period.

The increase in our tax rate for the three months ended March 31, 2011, compared to the same period in 2010, was primarily a result of an increased percentage of our 2011 profits being earned in higher tax rate jurisdictions, principally the U.S., due in part to our 2010 restructuring initiative. In addition, a 2010 reorganization of certain of our international operations also resulted in a benefit in the first quarter of 2010, the period of reorganization. These factors were partially offset by the 2011 settlement of an outstanding IRS audit matter and an increase in research and development expenses eligible for orphan drug credit.

Reconciliation between the U.S. federal statutory tax rate and our effective tax rate is summarized as follows:

	For the Three Months Ended March 31, 2011	2010
Statutory rate	35.0%	35.0%
State taxes	2.4	1.9
Taxes on foreign earnings	(5.5)	(9.8)

Credits and net operating loss utilization	(2.1)	(1.6)
Purchased intangible assets	1.4	1.5
IPR&D		0.8
Permanent items	(1.3)	(1.6)
Other	(2.3)	(0.7)
Effective tax rate	27.6%	25.5%

Accounting for Uncertainty in Income Taxes

We and our subsidiaries are routinely examined by various taxing authorities. We file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, we are no

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longer subject to U.S. federal tax examination for years before 2007 or state, local, or non-U.S. income tax examinations by tax authorities for years before 2001.

Contingency

In 2006, the Massachusetts Department of Revenue (DOR) issued a Notice of Assessment against Biogen Idec MA Inc. (BIMA), one of our wholly-owned subsidiaries, for $38.9 million of corporate excise tax for 2002, which includes associated interest and penalties. The assessment asserts that the portion of sales attributable to Massachusetts (sales factor), the computation of BIMA s research and development credits and certain deductions claimed by BIMA were not appropriate, resulting in unpaid taxes for 2002. In December 2006, we filed an abatement application with the DOR seeking abatement for 2001, 2002 and 2003, which was denied. In July 2007, we filed a petition with the Massachusetts Appellate Tax Board (the Massachusetts ATB) seeking, among other items, abatements of corporate excise tax for 2001, 2002 and 2003 and adjustments in certain credits and credit carryforwards for 2001, 2002 and 2003. Issues before the Board include the computation of BIMA s sales factor for 2001, 2002 and 2003, computation of BIMA s research credits for those same years, and the availability of deductions for certain expenses and partnership flow-through items. The Massachusetts ATB has ordered the hearing on our petition to begin on June 14, 2011.

On June 8, 2010, we received Notices of Assessment from the DOR against BIMA for $103.5 million of corporate excise tax, including associated interest and penalties, related to our 2004, 2005 and 2006 tax filings. The asserted basis for these assessments is consistent with that for 2002. Including associated interest and penalties, assessments related to periods under dispute total $142.4 million. In August 2010, we filed an abatement application with the DOR seeking abatement for 2004, 2005 and 2006, which the DOR denied in December 2010. We filed a petition appealing the denial with the Massachusetts ATB on February 3, 2011. For all periods under dispute, we believe that positions taken in our tax filings are valid and believe that we have meritorious defenses in these disputes. We are contesting these matters vigorously.

Our tax filings for 2007 and 2008 have not yet been audited by the DOR but have been prepared in a manner consistent with prior filings which may result in an assessment for those years. Due to tax law changes effective January 1, 2009, the computation and deductions at issue in previous tax filings have not been part of our tax filings in Massachusetts starting in 2009.

We believe that these assessments do not impact the level of liabilities for income tax contingencies. However, there is a possibility that we may not prevail in defending all of our assertions with the DOR. If these matters are resolved unfavorably in the future, the resolution could have a material adverse impact on the effective tax rate and our results of operations.

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17. Other Consolidated Financial Statement Detail

Other Income (Expense), Net

Components of other income (expense), net, are summarized as follows:

(In millions)	For the Three Months Ended March 31, 2011	2010
Interest income	$ 3.7	$ 8.9
Interest expense	(9.2)	(8.3)
Impairments of investments	(1.2)	(15.8)
Foreign exchange gains (losses), net	(0.4)	1.0
Gain (loss) on sales of investments, net	15.3	5.0
Other, net	1.8	0.8
Total other income (expense), net	$ 10.0	$ (8.4)

Other Current Assets

Other current assets consist of the following:

(In millions)	As of March 31, 2011	As of December 31, 2010
Deferred tax assets	$ 66.8	$ 112.2
Prepaid taxes	22.9	31.4
Receivable from collaborations	7.7	7.3
Interest receivable	4.3	4.9
Other prepaid expenses	60.1	47.9
Other	24.5	12.1
Total other current assets	$ 186.3	$ 215.8

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Accrued Expenses and Other

Accrued expenses and other consists of the following:

(In millions)	As of March 31, 2011	As of December 31, 2010
Employee compensation and benefits	$ 110.4	$ 159.7
Revenue-related rebates	122.9	105.3
Restructuring charges	20.5	66.4
Royalties and licensing fees	42.6	45.1
Deferred revenue	47.4	41.3
Collaboration expenses	45.2	31.6
Clinical development expenses	24.3	24.4
Interest payable	5.5	21.6
Construction in progress accrual	9.1	16.4
Current portion of contingent consideration	4.9	11.9
Other	158.6	142.2
Total accrued expense and other	$ 591.4	$ 665.9

For a discussion of restructuring charges accrued as of March 31, 2011 and December 31, 2010, please read Note 3, *Restructuring*, to our consolidated financial statements included in this report.

18. Investments in Variable Interest Entities

Consolidated Variable Interest Entities

Our condensed consolidated financial statements include the financial results of variable interest entities in which we are the primary beneficiary.

Investments in Joint Ventures

We consolidate the operations of Biogen Dompé SRL and Biogen Dompé Switzerland GmbH, our respective sales affiliates in Italy and Switzerland, as we retain the contractual power to direct the activities of these entities which most significantly and directly impact their economic performance. The activity of each of these joint ventures is significant to our overall operations. The assets of these joint ventures are restricted, from the standpoint of Biogen Idec, in that they are not available for our general business use outside the context of each joint venture. The holders of the liabilities of each joint venture, including the credit line from Dompé described in our 2010 Form 10-K, have no recourse to Biogen Idec.

The following table summarizes total joint venture assets and liabilities:

(In millions)	As of March 31, 2011	As of December 31, 2010
Assets	$ 184.8	$ 159.2
Liabilities	$ 74.5	$ 63.3

The joint venture s most significant assets are accounts receivable from the ordinary course of business. As of March 31, 2011, accounts receivable held by our joint ventures totaled $146.4 million, of which $141.3 million were related to Biogen Dompé SRL, compared to total accounts receivable of $124.2 million

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as of December 31, 2010, of which $118.0 million were related to Biogen Dompé SRL. For additional information related to our accounts receivable balances in Italy, please read Note 5, *Accounts Receivable* to these condensed consolidated financial statements.

Other than the line of credit from us and Dompé Farmaceutici SpA to Biogen-Dompé SRL, as described in Note 11, *Indebtedness* to our consolidated financial statements included within our 2010 Form 10-K, we have provided no financing to these joint ventures. In addition, Biogen-Dompé SRL has an operating lease for office space as well as a contract for the provision of administrative services with Dompé Farmaceutici SpA.

Knopp

In August 2010, we entered into a license agreement with Knopp Neurosciences, Inc. (Knopp), a subsidiary of Knopp Holdings, LLC, for the development, manufacture and commercialization of dexpramipexole, an orally administered small molecule in clinical development for the treatment of amyotrophic lateral sclerosis (ALS). We are responsible for all development activities and, if successful, we will also be responsible for the manufacture and global commercialization of dexpramipexole. Under the terms of the license agreement we made a $26.4 million upfront payment and agreed to pay Knopp up to an additional $265.0 million in development and sales-based milestone payments, as well as royalties on future commercial sales. In addition, we also purchased 30.0% of the Class B common shares of Knopp for $60.0 million.

Due to the terms of the license agreement and our investment in Knopp, we determined that we are the primary beneficiary of Knopp as we have the power to direct the activities that most significantly impact Knopp s economic performance. As such, we consolidate the results of Knopp. Although we have assumed responsibility for the development of dexpramipexole, we may also be required to reimburse certain Knopp expenses directly attributable to the license agreement. Any additional amounts incurred by Knopp that we reimburse will be reflected within total costs and expenses in our consolidated statements of income. Future development and sales-based milestone payments will be reflected within our consolidated income statement as charges to noncontrolling interests when such milestones are achieved.

In March 2011, we dosed the first patient in a registrational study for dexpramipexole. The achievement of this milestone resulted in a $10.0 million payment due to Knopp. As we consolidate Knopp, we recognized this payment as a charge to noncontrolling interests in the first quarter of 2011.

For the three months ended March 31, 2011, the collaboration incurred $5.7 million of expense related to the development of dexpramipexole, which is reflected as research and development expense within our condensed consolidated statement of income. The assets and liabilities of Knopp are not significant to our financial position or results of operations. We have provided no financing to Knopp other than previously contractually required amounts disclosed above.

Neurimmune SubOne AG

In 2007, we entered into a collaboration agreement with Neurimmune SubOne AG (Neurimmune), a subsidiary of Neurimmune AG, for the development and commercialization of antibodies for the treatment of Alzheimer s disease. Neurimmune conducts research to identify potential therapeutic antibodies and we are responsible for the

development, manufacturing and commercialization of all products. Based upon our current development plans, we may pay Neurimmune up to $360.0 million in remaining milestone payments, as well as royalties on sales of any resulting commercial products.

We determined that we are the primary beneficiary of Neurimmune because we have the power through the collaboration to direct the activities that most significantly impact SubOne s economic performance and are required to fund 100% of the research and development costs incurred in support of the collaboration agreement. Amounts that are incurred by Neurimmune for research and development expenses in support of

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the collaboration that we reimburse are reflected in research and development expense in our consolidated statements of income. Future milestone payments will be reflected within our consolidated statements of income as a charge to the noncontrolling interest when such milestones are achieved.

For the three months ended March 31, 2011 and 2010, the collaboration incurred development expense totaling $1.8 million and $5.1 million, respectively, which is reflected as research and development expense within our condensed consolidated statements of income. The assets and liabilities of Neurimmune are not significant as it is a research and development organization. We have provided no financing to Neurimmune other than previously contractually required amounts disclosed above.

In April 2011, we submitted an Investigational New Drug (IND) application for beta-amyloid removal therapy (BART), which triggered a $15.0 million milestone payment due to Neurimmune. BART is being developed for the treatment of Alzheimer s disease. As we consolidate Neurimmune, we will recognize this payment as a charge to noncontrolling interests in the second quarter of 2011.

Unconsolidated Variable Interest Entities

We have relationships with other variable interest entities which we do not consolidate as we lack the power to direct the activities that significantly impact the economic success of these entities. These relationships include investments in certain biotechnology companies and research collaboration agreements. For additional information related to our significant collaboration arrangements, please read Note 19, *Collaborations* to our consolidated financial statements included within our 2010 Form 10-K.

As of March 31, 2011 and December 31, 2010, the total carrying value of our investments in biotechnology companies that we determined to be variable interest entities and which are not consolidated were $24.0 million and $22.9 million, respectively. Our maximum exposure to loss related to these variable interest entities is limited to the carrying value of our investments.

We have entered into research collaborations with certain variable interest entities where we are required to fund certain development activities. These development activities are included in research and development expense within our consolidated statements of income as they are incurred. Depending on the collaborative arrangement, we may record funding receivables or payable balances with our partners, based on the nature of the cost-sharing mechanism and activity within the collaboration. As of March 31, 2011 and December 31, 2010, we had no significant receivables or payables related to cost sharing arrangements with unconsolidated variable interest entities.

We have provided no financing to these variable interest entities other than previously contractually required amounts.

19. Litigation

Massachusetts Department of Revenue

In 2006, the Massachusetts Department of Revenue (DOR) issued a Notice of Assessment against BIMA for $38.9 million of corporate excise tax for 2002, which includes associated interest and penalties. The assessment asserts that the portion of sales attributable to Massachusetts (sales factor), the computation of BIMA s research and

development credits and certain deductions claimed by BIMA were not appropriate, resulting in unpaid taxes for 2002. On December 6, 2006, we filed an abatement application with the DOR seeking abatements for 2001, 2002 and 2003. The abatement application was denied on July 24, 2007. On July 25, 2007, we filed a petition with the Massachusetts Appellate Tax Board (the Massachusetts ATB) seeking, among other items, abatements of corporate excise tax for 2001, 2002 and 2003 and adjustments in

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certain credits and credit carry forwards for 2001, 2002 and 2003. Issues before the Board include the computation of BIMA s sales factor for 2001, 2002 and 2003, computation of BIMA s research credits for those same years, and the availability of deductions for certain expenses and partnership flow-through items. The Massachusetts ATB has ordered the hearing on our petition to begin on June 14, 2011.

On June 8, 2010, we received Notices of Assessment from the DOR against BIMA for $103.5 million of corporate excise tax, including associated interest and penalties, related to our 2004, 2005 and 2006 tax filings. The asserted basis for these assessments is consistent with that for 2002. On August 5, 2010, we filed an abatement application with the DOR seeking abatements for 2004, 2005, and 2006, which the DOR denied on December 15, 2010. We filed a petition appealing the denial with the Massachusetts ATB on February 3, 2011. For all periods under dispute, we believe that positions taken in our tax filings are valid and believe that we have meritorious defenses in these disputes. We are contesting these matters vigorously.

Hoechst Genentech Arbitration

On October 24, 2008, Hoechst GmbH filed with the ICC International Court of Arbitration (Paris) a request for arbitration against Genentech, relating to a terminated license agreement (the Hoechst License) between Hoechst s predecessor and Genentech granting Genentech certain rights with respect to U.S. Patents 5,849,522 (522 patent) and 6,218,140 (140 patent) and related patents outside the U.S. Although we are not a party to the arbitration, any damages awarded to Hoechst based on U.S. net sales of RITUXAN may be a cost charged to our collaboration with Genentech. The license was entered as of January 1, 1991 and was terminated by Genentech on October 27, 2008. We understand that Hoechst seeks payment of royalties on sales of Genentech products, including RITUXAN, damages for breach of contract, and other relief. We estimate, based solely on our understanding of Hoechst s claims and not on any evaluation of the merits of the claims, that royalties and interest, if awarded in connection with U.S. net sales of RITUXAN, could total $100 million based on the 0.5% royalty rate set forth in the agreement and historical RITUXAN net sales. Although we are not a party to the arbitration, any damages awarded to Hoechst based on U.S. sales of RITUXAN may be a cost charged to our collaboration with Genentech.

Sanofi 522 and 140 Patent Litigation

On October 27, 2008, Sanofi-Aventis Deutschland GmbH (Sanofi), successor to Hoechst, filed suit against Genentech and Biogen Idec in federal court in Texas (E.D. Tex.) (Texas Action) claiming that RITUXAN and certain other Genentech products infringe the 522 patent and the 140 patent. The patents are due to expire in December 2015. Sanofi seeks preliminary and permanent injunctions, compensatory and exemplary damages, and other relief. The same day Genentech and Biogen Idec filed a complaint against Sanofi in federal court in California (N.D. Cal.) (California Action) seeking a declaratory judgment that RITUXAN and other Genentech products do not infringe the 522 patent or the 140 patent and a declaratory judgment that those patents are invalid. The Texas Action was ordered transferred to the federal court in the Northern District of California and consolidated with the California Action and we refer to the two actions together as the Consolidated Sanofi Patent Actions. On March 7, 2011, the court granted Biogen Idec s and Genentech s motion for summary judgment in the Consolidated Sanofi Patent Actions on the grounds that RITUXAN does not infringe the 522 patent or the 140 patent. The court has ordered a trial to begin on June 13, 2011 on the remaining claims, including Biogen Idec s and Genentech s invalidity claims. We have not formed an opinion that an unfavorable outcome on the invalidity claims in the Consolidated Sanofi Patent Actions or in any appeal by Sanofi of non-infringement ruling is either probable or remote. We believe that we have good and valid

defenses and are vigorously defending against the allegations. In the event that we and Genentech are found liable we estimate that the range of any potential loss could extend to a royalty of up to 0.5% of net sales of RITUXAN, based on, among other things, the royalty rate set forth in the terminated Hoechst License and an analysis of royalty rates charged for comparable technologies. We believe that Sanofi would seek a

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substantially higher royalty rate, and we will continue to vigorously oppose its claims and position. One of the issues to be resolved in the Consolidated Sanofi Patent Actions is whether any award of reasonable royalty damages would begin running from October 27, 2008, when Genentech terminated the Hoechst License, or from October 27, 2002, six years before Sanofi filed the Texas Action, the statutory limitations period for damages in patent cases. In the event that Genentech is ordered in the arbitration described above to pay royalties on RITUXAN sales under the Hoechst License up to the date of the termination of the Hoechst License (October 27, 2008), we do not anticipate that either we or Genentech would be subject to any damages award in the Consolidated Sanofi Patent Actions for any period before October 27, 2008. Any damages awarded to Sanofi based on U.S. net sales of RITUXAN may be a cost charged to our collaboration with Genentech.

755 Patent Litigation

On September 15, 2009, we were issued U.S. patent No. 7,588,755 (755 Patent), which claims the use of interferon beta for immunomodulation or treating a viral condition, viral disease, cancers or tumors. This patent, which expires in September 2026, covers, among other things, the treatment of MS with our product AVONEX. On May 27, 2010, Bayer Healthcare Pharmaceuticals Inc. (Bayer) filed a lawsuit against us in federal court in the District of New Jersey seeking a declaratory judgment of patent invalidity and noninfringement and seeking monetary relief in the form of attorneys fees, costs and expenses. On May 28, 2010, BIMA filed a lawsuit in federal court in the District of New Jersey alleging infringement of the 755 Patent by EMD Serono, Inc. (manufacturer, marketer and seller of REBIF), Pfizer, Inc. (co-marketer of REBIF), Bayer (manufacturer, marketer and seller of BETASERON and manufacturer of EXTAVIA), and Novartis Pharmaceuticals Corp. (marketer and seller of EXTAVIA) and seeking monetary damages, including lost profits and royalties. The court has consolidated the two lawsuits, and we refer to the two actions as the Consolidated 755 Patent Actions. On August 16, 2010, BIMA amended its complaint to add Ares Trading S.A. (Ares), an affiliate of EMD Serono, as a defendant, and to seek a declaratory judgment that a purported nonsuit and option agreement between Ares and BIMA dated October 12, 2000, that purports to provide that Ares will have an option to obtain a license to the 755 Patent, is not a valid and enforceable agreement or, alternatively, has been revoked and/or terminated by the actions of Ares or its affiliates. Ares has answered the amended complaint and has moved to compel arbitration of the claims against it, which we have opposed, and Ares motion is pending. Ares has also filed a Notice of Arbitration, which we have opposed. Bayer, Pfizer, Novartis and EMD Serono have all filed counterclaims in the Consolidated 755 Patent Actions seeking declaratory judgments of patent invalidity and noninfringement, and seeking monetary relief in the form of costs and attorneys fees, and EMD Serono and Bayer have filed a counterclaim seeking a declaratory judgment that the 755 Patent is unenforceable based on alleged inequitable conduct. Bayer has also amended its complaint to seek such a declaration.

GSK 612 Patent Litigation

On March 23, 2010, we and Genentech were issued U.S. Patent No. 7,682,612 (612 patent) relating to a method of treating CLL using an anti-CD20 antibody. The patent which expires in November 2019 covers, among other things, the treatment of CLL with RITUXAN. On March 23, 2010, we filed a lawsuit in federal court in the Southern District of California against Glaxo Group Limited and GlaxoSmithKline LLC (collectively, GSK) alleging infringement of that patent based upon GSK s manufacture, marketing and sale, offer to sell, and importation of ARZERRA. We seek damages, including a royalty and lost profits, and injunctive relief. GSK has filed a counterclaim seeking a declaratory judgment of patent invalidity, noninfringement, unenforceability, and inequitable conduct, and seeking monetary relief in the form of costs and attorneys fees.

Novartis V&D 688 Patent Litigation

On January 26, 2011, Novartis Vaccines and Diagnostics, Inc. (Novartis V&D) filed suit against us in federal district court in Delaware, alleging that TYSABRI infringes U.S. Patent No. 5,688,688 *Vector for*

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Expression of a Polypeptide in a Mammalian Cell (688 patent), which was granted in November 1997 and expires in November 2014. Novartis V&D seeks a declaration of infringement, a finding of willful infringement, compensatory damages, treble damages, interest, costs and attorneys fees. We have not formed an opinion that an unfavorable outcome is either probable or remote , and are unable to estimate the magnitude or range of any potential loss. We believe that we have good and valid defenses to the complaint and will vigorously defend against it.

Product Liability and Other Legal Proceedings

We are also involved in product liability claims and other legal proceedings generally incidental to our normal business activities. While the outcome of any of these proceedings cannot be accurately predicted, we do not believe the ultimate resolution of any of these existing matters would have a material adverse effect on our business or financial conditions.

20. Segment Information

We operate as one business segment, which is the business of discovering, developing, manufacturing and marketing products for the treatment of serious diseases with a focus on neurological disorders and therefore, our chief operating decision-maker manages the operations of our Company as a single operating segment.

21. New Accounting Pronouncements

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

In January 2010, we adopted a newly issued accounting standard which requires additional disclosure about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. In addition, effective for interim and annual periods beginning after December 15, 2010, which for us is January 1, 2011, this standard further requires an entity to present disaggregated information about activity in Level 3 fair value measurements on a gross basis, rather than as one net amount. As this accounting standard only requires enhanced disclosure, the adoption of this newly issued accounting standard did not impact our financial position or results of operations.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with our condensed consolidated financial statements and accompanying notes beginning on page 4 of this quarterly report on Form 10-Q and our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K).

Executive Summary

Introduction

Biogen Idec is a global biotechnology company focused on discovering, developing, manufacturing and marketing products for the treatment of serious diseases with a focus on neurological disorders. We currently have four marketed products: AVONEX, RITUXAN, TYSABRI, and FUMADERM. Our marketed products are used for the treatment of multiple sclerosis (MS), non-Hodgkin s lymphoma (NHL), rheumatoid arthritis (RA), Crohn s disease, chronic lymphocytic leukemia (CLL), and psoriasis.

In the near term, our current and future revenues are dependent upon continued sales of our three principal products, AVONEX, RITUXAN and TYSABRI. In the longer term, our revenue growth will be dependent upon the successful pursuit of external business development opportunities and clinical development, regulatory approval and launch of new commercial products as well as upon our ability to protect our patents related to our marketed products and assets originating from our research and development efforts. As part of our ongoing research and development efforts, we have devoted significant resources to conducting clinical studies to advance the development of new pharmaceutical products and to explore the utility of our existing products in treating disorders beyond those currently approved in their labels.

In November 2010, we announced a number of strategic, operational and organizational initiatives, which are described below under the heading *Restructuring Charge*. We expect to incur charges totaling approximately $110.0 million associated with the implementation of these initiatives of which $75.2 million was incurred in 2010 and the remainder is anticipated to be substantially incurred by the end of 2011.

Financial Highlights

The following table is a summary of financial results achieved:

	For the Three Months Ended March 31,		
(In millions, except per share amounts and percentages)	**2011(1)**	**2010(2)**	**Change %**
Total revenues	$ 1,203.3	$ 1,108.9	8.5%
Income from operations	$ 416.3	$ 303.7	37.1%
Net income attributable to Biogen Idec Inc.	$ 294.3	$ 217.4	35.4%
Diluted earnings per share attributable to Biogen Idec Inc	$ 1.20	$ 0.80	50.4%

(1)

Income from operations, as well as net income attributable to Biogen Idec Inc. for the three months ended March 31, 2011, was reduced by the $16.6 million restructuring charge recognized during the first quarter of 2011.

(2) Income from operations, as well as net income attributable to Biogen Idec Inc. for the three months ended March 31, 2010, were reduced by an approximately $40.0 million charge to acquired in-process research and development (IPR&D) related to the achievement of a milestone by Biogen Idec Hemophilia, Inc. (formerly Syntonix Pharmaceuticals, Inc.).

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As described below under *Results of Operations,* our operating results for the three months ended March 31, 2011 reflect the following:

Worldwide AVONEX revenues totaled $642.5 million in the first quarter of 2011, representing an increase of 8.4% over the same period in 2010.

Our share of TYSABRI revenues totaled $251.4 million in the first quarter of 2011, representing an increase of 15.0% over the same period in 2010.

Our share of RITUXAN revenues totaled $256.1 million in the first quarter of 2011, remaining essentially flat in comparison to the same period in 2010. Our share of co-promotion profits in the U.S. totaled $221.9 million representing an increase of 10.8% over 2010. This increase was offset by royalty expirations in our rest of world markets and a decrease in selling and development expenses incurred by us and reimbursed by Genentech, which are also included within our total unconsolidated joint business revenues.

Total cost and expenses decreased 2.2% in the first quarter of 2011, compared to the same period in 2010, reflecting our efforts to become a more efficient and cost-effective organization. Research and development expense and selling, general and administrative costs decreased 4.4% and 1.7%, respectively, for the three months ended March 31, 2011, from the same period in 2010. These decreases were offset by the $16.6 million restructuring charge recognized during the first quarter of 2011 as well as a 17.7% increase in collaboration profit sharing expense due to TYSABRI revenue growth. In addition, total cost and expenses for the three months ended March 31, 2010 included an IPR&D charge of $40.0 million related to the achievement of a milestone by Biogen Idec Hemophilia, Inc.

We generated $272.6 million of net cash flow from operations for the three months ended March 31, 2011, which was primarily driven by earnings. Cash and cash equivalents and marketable securities totaled approximately $2,114.0 million as of March 31, 2011.

In February 2011, our Board of Directors authorized the repurchase of up to 20 million shares of our common stock. We expect to use this repurchase program principally to offset common stock issuance under our share-based compensation plans. This repurchase program does not have an expiration date. Under this authorization, we repurchased approximately 2.8 million shares of our common stock at a cost of $195.3 million during the first quarter of 2011. From April 1, 2011 through April 21, 2011, we repurchased an additional 1.0 million shares under this program at a total cost of $75.7 million. Approximately 16.2 million shares remain available for repurchase under the 2011 repurchase program.

Business Environment

We conduct our business primarily within the biotechnology and pharmaceutical industries, which are highly competitive. Many of our competitors are working to develop products similar to those we are developing or already market. For example, along with us, a number of companies are working to develop additional treatments for MS that may compete with AVONEX and TYSABRI, including oral and other alternative formulations. In addition, the commercialization of certain of our own pipeline product candidates, such as BG-12 (dimethyl fumarate), may also negatively impact future sales of AVONEX and TYSABRI. We may also face increased competitive pressures as a result of the emergence of biosimilars. In the U.S., AVONEX, RITUXAN and TYSABRI are licensed under the Public Health Service Act (PHSA) as biological products. In March 2010, U.S. healthcare reform legislation amended the PHSA to authorize the U.S. Food and Drug Administration (FDA) to approve biological products, known as biosimilars or follow-on biologics, that are shown to be highly similar to previously approved biological products based upon potentially abbreviated data packages.

In addition, the U.S. healthcare reform legislation enacted in 2010 contained new cost containment measures. We have encountered similar efforts to reform health care coverage and costs in other countries in which we operate. Moreover, the economic environment in Europe has become increasingly challenging. Many of the countries in which we operate are also seeking to reduce their public expenditures in light of the recent global economic downturn. The deterioration of the credit and economic conditions in certain countries in Europe has delayed reimbursement for our products and led to additional austerity measures aimed at reducing healthcare

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costs. Global efforts to reduce healthcare costs continue to exert pressure on product pricing and have negatively impacted our revenues and results of operations. For additional information about certain risks that could negatively impact our financial position or future results of operations, please read the *Risk Factors* section of this report.

Key Pipeline Development

BG-12

In April 2011, we announced positive top-line results from DEFINE, the first of two pivotal Phase 3 clinical trials designed to evaluate our investigational oral compound BG-12 as a monotherapy in relapsing-remitting multiple sclerosis (RRMS). Results showed that 240 mg of BG-12, administered either twice or three times a day, met the primary and secondary study endpoints. Initial data from the trial also showed that BG-12 demonstrated a favorable safety and tolerability profile, consistent with what was seen in the published Phase 2 study of BG-12. A second Phase 3 RRMS clinical trial, CONFIRM, is currently underway, with results expected in the second half of 2011. The FDA recently rescinded the fast track designation for BG-12 due to the availability of another oral MS treatment on the market.

We have several patents and other rights applicable to BG-12. In the U.S. we are entitled to the 5 year data exclusivity given to new chemical entities and we own a patent covering the administration of dimethyl fumarate (DMF), the active ingredient in BG-12, to treat MS and other autoimmune diseases. This patent expires in 2020 with a possible term extension to be determined. In the E.U. we have a patent covering our BG-12 formulation and the method of treating MS and other autoimmune diseases with our formulation that expires in 2019 and which may also be eligible for patent term extension in some countries. There is some uncertainty around achieving data protection in the E.U. Specifically, we believe that we are entitled to 8 years of data exclusivity and 2 years of market exclusivity because we believe BG-12 is a New Active Substance under E.U. law. The European Medicines Agency s Committee for Medicinal Products for Human Use (CHMP) has recently taken the position that a single active substance may not qualify for New Active Substance status if it was one component of a previously approved multi-component product. Other companies have challenged this position in litigation that is still ongoing. FUMADERM is approved for psoriasis in Germany and contains DMF, the active ingredient in BG-12, as well as additional monoethyl fumarate salts. We believe we will be entitled to data exclusivity and we will continue to pursue this as we move the compound forward.

We acquired BG-12 and FUMADERM (Fumapharm Products) as part of our acquisition of Fumapharm AG in 2006. We paid $220.0 million upon closing of the transaction and will pay an additional $15.0 million if a Fumapharm Product is approved for MS in the U.S. or E.U. We may also make the following milestone payments based on sales of Fumapharm Products in any indication less customary returns, discounts and allowances and charges for transportation, taxes and customs duties:

	Cumulative Sales Level				
Prior 12 Month Sales	**$500M**	**$1.0B**	**$2.0B**	**$3.0B**	**Each additional $1.0B up to $20.0B**
	Payment Amount *(In millions)*				
<$500 million	$	$	$	$	$
$500 million $1.0 billion	22.0	25.0	50.0	$ 50M	50.0
$1.0 billion $1.5 billion		50.0	100.0	$ 100M	100.0

$1.5 billion	$2.0 billion	150.0	$ 150M	150.0
$2.0 billion	$2.5 billion	200.0	$ 200M	200.0
$2.5 billion	$3.0 billion		$ 250M	250.0
>$3.0 billion				300.0

These milestone payments are considered contingent consideration and will be accounted for as an increase to goodwill as incurred, in accordance with the accounting standard applicable to business combinations when we acquired Fumapharm. Milestone payments are due within 30 days following the end of the quarter in which the applicable sales level has been reached and are based upon the total sales of Fumapharm Products in the prior twelve month period.

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Results of Operations

Revenues

Revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31, 2011		2010	
Product revenues				
United States	$ 460.4	38.3%	$ 410.3	37.0%
Rest of world	446.7	37.1%	413.9	37.3%
Total product revenues	$ 907.1	75.4%	$ 824.2	74.3%
Unconsolidated joint business	256.1	21.3%	254.9	23.0%
Other	40.1	3.3%	29.7	2.7%
Total revenues	$ 1,203.3	100.0%	$ 1,108.9	100.0%

Product Revenues

Product revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31, 2011		2010	
AVONEX	$ 642.5	70.8%	$ 592.5	71.9%
TYSABRI	251.4	27.7%	218.6	26.5%
Other	13.2	1.5%	13.1	1.6%
Total product revenues	$ 907.1	100.0%	$ 824.2	100.0%

AVONEX

Revenues from AVONEX are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31, 2011	2010	Change %
United States	$ 387.3	$ 349.9	10.7%

Rest of world	255.2	242.6	5.2%
Total AVONEX revenues	$ 642.5	$ 592.5	8.4%

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in U.S. AVONEX revenue was due to price increases. Sales volume for the three months comparative periods remained essentially unchanged. U.S. AVONEX revenues for the first quarter of 2011 were negatively impacted by an increase in reserves established for rebates and allowances related to the U.S. healthcare reform legislation enacted in March 2010.

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in rest of world AVONEX revenue was due to increased commercial demand offset by price decreases in some countries. Increased commercial demand resulted in increases of approximately 14.4% in rest of world AVONEX unit sales volume for the three months ended March 31, 2011, over the prior year comparative period. AVONEX rest of world revenues for the three months ended March 31, 2011 also includes losses recognized in relation to the settlement of certain cash flow hedge instruments under our foreign currency hedging program totaling $7.1 million, compared to losses recognized of $1.3 million in the prior year comparative period.

In April the CHMP recommended approval of AVONEX PEN for patients with relapsing MS and patients with a single demyelinating event. AVONEX PEN is designed to be the first single-use, once-a-week, fully integrated intramuscular autoinjector available for use with AVONEX treatment and may improve the

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convenience of AVONEX administration. The CHMP recommendation provides the basis for a European Commission licensing decision, which is expected within 75 days from the opinion. AVONEX PEN has already received authorization from Health Canada.

We expect AVONEX to face increasing competition in the MS marketplace in both the U.S. and rest of world. A number of companies, including us, are working to develop products to treat MS that may compete with AVONEX now and in the future, including oral and other alternative formulations. In addition, the continued growth of TYSABRI and the commercialization of our other pipeline product candidates may negatively impact future sales of AVONEX. Increased competition may also lead to reduced unit sales of AVONEX, as well as increasing price pressure.

TYSABRI

We collaborate with Elan Pharma International, Ltd (Elan) an affiliate of Elan Corporation, plc, on the development and commercialization of TYSABRI. For additional information related to this collaboration, please read Note 19, *Collaborations* to our consolidated financial statements included within our 2010 Form 10-K.

Revenues from TYSABRI are summarized as follows:

	For the Three Months Ended March 31,		Change
(In millions, except percentages)	**2011**	**2010**	**%**
United States	$ 73.2	$ 60.4	21.1%
Rest of world	178.2	158.2	12.7%
Total TYSABRI revenues	$ 251.4	$ 218.6	15.0%

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in U.S. TYSABRI revenue was due to increased commercial demand and price increases. Increased commercial demand resulted in increases of approximately 11.4% in U.S. TYSABRI unit sales volume for the three months ended March 31, 2011, over the prior year comparative period. Net sales of TYSABRI from our collaboration partner, Elan, to third-party customers in the U.S. for the three months ended March 31, 2011 totaled $169.9 million, compared to $135.2 million in the prior year comparative period.

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in rest of world TYSABRI revenue was due to increased commercial demand offset by price decreases in some countries. Increased commercial demand resulted in increases of approximately 18.5% in rest of world TYSABRI unit sales volume for the three months ended March 31, 2011, over the prior year comparative period. TYSABRI rest of world revenues for the three months ended March 31, 2011 also includes losses recognized in relation to the settlement of certain cash flow hedge instruments under our foreign currency hedging program totaling $1.2 million, compared to gains recognized of $1.5 million in the prior year comparative period.

In April 2011, the U.S. Food and Drug Administration (FDA) approved changes to the U.S. TYSABRI label detailing the updated incidence of progressive multifocal leukoencephalopathy (PML), a serious brain infection, and clarifying that the risk of PML in patients who have been treated with an immunosuppressant before receiving TYSABRI is not

increased by prior treatment with short courses of corticosteroids. In April 2011, the CHMP recommended renewing TYSABRI s marketing authorization in the E.U. Formal approval is expected in late June. TYSABRI will undergo a second renewal process in another five years.

E.U. and U.S. regulators continue to monitor and assess on an ongoing basis the criteria for confirming PML diagnosis, the number of PML cases, the incidence of PML in TYSABRI patients, the risk factors for PML, and TYSABRI s benefit-risk profile, which could result in further modifications to the respective labels or other restrictions for TYSABRI. Safety warnings included with the TYSABRI label, and any future safety-related label changes, may limit the growth of TYSABRI unit sales. We continue to research and develop protocols and therapies that may reduce risk and improve outcomes of PML in patients. For example, we have initiated two clinical studies in the U.S., known as STRATIFY-1 and STRATIFY-2, that collectively are intended to define the

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prevalence of serum JC virus antibody in patients with relapsing MS receiving or considering treatment with TYSABRI and the stratification of patients into lower or higher risk for developing PML based on antibody status. In April 2011, the CHMP recommended that the product label for TYSABRI in the E.U. be updated to include anti-JC virus antibody status as a third risk factor to help stratify the risk of PML, with formal approval expected in June 2011. Prior immunosuppressant therapy and TYSABRI treatment duration are two established risk factors already included in the product labeling. In addition, our JC virus assay has recently been CE marked for commercial access in the E.U. and we anticipate it will become commercially available broadly in the E.U. by May 2011. We are pursuing regulatory approval of our JC virus assay in the U.S. and expect it will be available broadly in the U.S. later this year.

Our efforts to stratify patients into lower or higher risk for developing PML, and other ongoing or future clinical trials involving TYSABRI may have a negative impact on prescribing behavior in at least the short term, which may result in decreased product revenues from sales of TYSABRI. We also expect TYSABRI to face increasing competition in the MS marketplace in both the U.S. and rest of world. A number of companies, including us, are working to develop products to treat MS that may compete with TYSABRI now and in the future, including oral and other alternative formulations. In addition, the commercialization of our other pipeline product candidates may negatively impact future sales of TYSABRI. Increased competition may also lead to reduced unit sales of TYSABRI, as well as increasing price pressure.

Unconsolidated Joint Business Revenues

We collaborate with Genentech on the development and commercialization of RITUXAN. In April 2011, the FDA approved RITUXAN, in combination with corticosteroids, as a new medicine for adults with Wegener s Granulomatosis (WG) and Microscopic Polyangiitis (MPA). WG and MPA are two severe forms of vasculitis called ANCA-Associated Vasculitis (AAV), a rare autoimmune disease that largely affects the small blood vessels of the kidneys, lungs, sinuses, and a variety of other organs.

For additional information related to this collaboration and additional information regarding the pretax co-promotion profit sharing formula for RITUXAN and its impact on future unconsolidated joint business revenues, please read Note 19, *Collaborations* to our consolidated financial statements included within our 2010 Form 10-K.

Revenues from unconsolidated joint business are summarized as follows:

	For the Three Months Ended March 31,		Change
(In millions, except percentages)	**2011**	**2010**	**%**
Biogen Idec s share of co-promotion profits in the U.S.	$ 221.9	$ 200.3	10.8%
Reimbursement of selling and development expenses in the U.S.	2.7	16.2	(83.3)%
Revenue on sales of RITUXAN in the rest of world	31.5	38.4	(18.0)%
Total unconsolidated joint business revenues	$ 256.1	$ 254.9	0.5%

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Biogen Idec s Share of Co-Promotion Profits in the U.S.

The following table provides a summary of amounts comprising our share of co-promotion profits in the U.S.:

	For the Three Months Ended March 31,		Change
(In millions, except percentages)	**2011**	**2010**	**%**
Product revenues, net	$ 721.9	$ 686.7	5.1%
Costs and expenses	154.7	173.5	(10.8)%
Co-promotion profits in the U.S.	$ 567.2	$ 513.2	10.5%
Biogen Idec s share of co-promotion profits in the U.S.	$ 221.9	$ 200.3	10.8%

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in U.S. RITUXAN product revenues was primarily due to price increases and increased commercial demand. Increased commercial demand resulted in increases of approximately 3.9% in U.S. RITUXAN unit sales volume for the three months ended March 31, 2011, over the prior year comparative period. U.S. RITUXAN product revenues for the first quarter of 2011 were also negatively impacted by an increase in reserves established for rebates and allowances related to the U.S. healthcare reform legislation enacted in March 2010. The decrease in collaboration costs and expenses for the three month comparative period was primarily related to Genentech assuming responsibility for the U.S. sales and marketing efforts for RITUXAN in the fourth quarter of 2010.

Under our collaboration agreement, our current pretax co-promotion profit-sharing formula, which resets annually, provides for a 40% share of co-promotion profits if co-promotion operating profits exceed $50.0 million. For 2011 and 2010, the 40% threshold was met during the first quarter.

In addition, in 2011 a new fee became payable by all branded prescription drug manufacturers and importers. This fee will be calculated based upon each organization s percentage share of total branded prescription drug sales to qualifying U.S. government programs (such as Medicare, Medicaid and VA and PHS discount programs). We estimate that the fee assessed to Genentech on qualifying sales of RITUXAN will result in a reduction of our share of pre-tax co-promotion profits in the U.S. by approximately $15.0 million in 2011.

Reimbursement of Selling and Development Expenses in the U.S.

In the fourth quarter of 2010, as part of our restructuring initiative, which is described below under the heading *Restructuring Charge,* we and Genentech made an operational decision under which we eliminated our RITUXAN oncology and rheumatology sales force, with Genentech assuming responsibility for the U.S. sales and marketing efforts related to RITUXAN. We believe that centralizing the sales force will enhance the sales effectiveness and profitability of our collaboration for the sale of RITUXAN in the U.S. As a result of this change, selling and development expense incurred by us in the U.S. and reimbursed by Genentech decreased for the three months ended March 31, 2011, in comparison to the same period in 2010. We expect that the amount of reimbursement for selling and development expense in the U.S. will decrease in future periods to a negligible amount.

Revenue on Sales of RITUXAN in the Rest of the World

Revenue on sales of RITUXAN in the rest of world consists of our share of pretax co-promotion profits in Canada and royalty revenue on sales of RITUXAN outside the U.S. and Canada. For the three months ended March 31, 2011, compared to the same period in 2010, revenues on sales of RITUXAN in the rest of world continue to decline due to the expiration of royalties on a country-by-country basis in certain of our rest of world markets. The royalty period for sales in the rest of world with respect to all products is 11 years from the first commercial sale of such product on a country-by-country basis. The royalty periods for substantially all of the remaining royalty-bearing sales of RITUXAN in the rest of the world will expire by 2012. As a result of these expirations, we expect royalty revenues derived from sales of RITUXAN in the rest of world to continue to decline in future periods.

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Other Revenues

Other revenues are summarized as follows:

(In millions, except percentages)	For the Three Months Ended March 31, 2011	2010	Change %
Royalty revenues	$ 25.6	$ 26.0	(1.5)%
Corporate partner revenues	14.5	3.7	291.9%
Total other revenues	$ 40.1	$ 29.7	35.0%

Royalty Revenues

We receive royalties on sales by our licensees of a number of products covered under patents we own. For the three months ended March 31, 2011, compared to the same period in 2010, royalty revenues remained relatively unchanged.

Our most significant source of royalty revenue is derived from worldwide sales of ANGIOMAX by The Medicines Company (TMC). Royalty revenues related to the sales of ANGIOMAX are recognized in an amount equal to the level of net sales achieved during a calendar year multiplied by the royalty rate in effect for that tier under our agreement with TMC. The royalty rate increases based upon which tier of total net sales are earned in any calendar year. The increased royalty rate is applied retroactively to the first dollar of net sales achieved during the year. This formula has the effect of increasing the amount of royalty revenue to be recognized in later quarters and, as a result, an adjustment is recorded in the period in which an increase in royalty rate has been achieved.

Under the terms of our agreement, TMC is obligated to pay us royalties earned, on a country-by-country basis, until the later of (1) twelve years from the date of the first commercial sale of ANGIOMAX in such country or (2) the date upon which the product is no longer covered by a patent in such country. The annual royalty rate is reduced by a specified percentage in any country where the product is no longer covered by a patent and where sales have been reduced to a certain volume-based market share. TMC began selling ANGIOMAX in the U.S. in January 2001. The principal U.S. patent that covers ANGIOMAX was due to expire in March 2010 and TMC applied for an extension of the term of this patent. Initially, the U.S. Patent and Trademark Office (PTO) rejected TMC s application because in its view the application was not timely filed. TMC sued the PTO in federal district court seeking to extend the term of the principal U.S. patent to December 2014. On August 3, 2010, the federal district court ordered the PTO to deem the application as timely filed. The PTO did not appeal the order, but a generic manufacturer is challenging the order in an appellate proceeding. The PTO has granted an interim extension of the patent term until August 13, 2011. In the event that TMC is unsuccessful in obtaining a patent term extension thereafter and third parties sell products comparable to ANGIOMAX, we would expect a significant decrease in royalty revenues due to increased competition, which may impact sales and result in lower royalty tiered rates.

Corporate Partner Revenues

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in corporate partner revenue was primarily due to a one-time cash payment of approximately $11.0 million received in exchange for entering into an asset transfer agreement in March 2011, related to two research and development programs that were

discontinued in connection with our *Framework for Growth* restructuring initiative.

Provision for Discounts and Allowances

Revenues from product sales are recorded net of applicable allowances for trade term discounts, wholesaler incentives, Medicaid rebates, Veterans Administration (VA) and Public Health Service (PHS) discounts, managed care rebates, product returns, and other governmental discounts or applicable allowances. Reserves established for these discounts and allowances are classified as reductions of accounts receivable (if the amount is payable to our customer) or a liability (if the amount is payable to a party other than our

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customer). These reserves are based on estimates of the amounts earned or claimed on the related sales. Our estimates take into consideration our historical experience, current contractual and statutory requirements, specific known market events and trends and forecasted customer buying patterns. Actual amounts may ultimately differ from our estimates. If actual results vary, we may need to adjust these estimates, which could have an effect on earnings in the period of the adjustment. The estimates we make with respect to these allowances represent the most significant judgments with regard to revenue recognition.

Reserves for discounts, contractual adjustments and returns that reduced gross product revenues are summarized as follows:

	For the Three Months Ended March 31,		
(In millions, except percentages)	**2011**	**2010**	**Change %**
Discounts	$ 23.8	$ 19.3	23.3%
Contractual adjustments	86.1	55.9	54.0%
Returns	2.8	4.6	(39.1)%
Total allowances	$ 112.7	$ 79.8	41.2%
Gross product revenues	$ 1,019.8	$ 904.0	12.8%
Percent of gross product revenues	11.1%	8.8%	

Discount reserves include trade term discounts and wholesaler incentives. For the three months ended March 31, 2011, compared to the same period in 2010, the increase in discounts was primarily driven by increases in trade term discounts and wholesaler incentives as a result of price increases and increased sales.

Contractual adjustment reserves relate to Medicaid and managed care rebates, VA and PHS discounts and other governmental rebates or applicable allowances. For the three months ended March 31, 2011, compared to the same period in 2010, the increase in contractual adjustments was primarily due to the impact of higher contractual rebates and discounts resulting from U.S. healthcare reform legislation enacted in March 2010, including an increase in reserves associated with the implementation of additional discounts to Medicare beneficiaries in the first quarter of 2011 whose prescription drug costs cause them to be subject to the Medicare Part D coverage gap. In addition, the increase in contractual adjustments was also due to higher reserves for managed care and Medicaid and VA programs primarily associated with price increases in the U.S. as well as an increase in governmental rebates and allowances associated with the implementation of pricing actions in certain of the international markets in which we operate.

Product return reserves are established for returns made by wholesalers. In accordance with contractual terms, wholesalers are permitted to return product for reasons such as damaged or expired product. The majority of wholesaler returns are due to product expiration. We also accept returns from our patients for various reasons. Reserves for product returns are recorded in the period the related revenue is recognized, resulting in a reduction to product sales. For the three months ended March 31, 2011, compared to the same period in 2010, return reserves decreased due to a reduction of returns made by wholesalers.

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Cost and Expenses

A summary of total cost and expenses is as follows:

(In millions, except percentages)	For the Three Months Ended March 31, 2011	2010	Change %
Cost of sales, excluding amortization of acquired intangible assets	$ 103.1	$ 97.1	6.2%
Research and development	293.6	307.0	(4.4)%
Selling, general and administrative	244.5	248.7	(1.7)%
Collaboration profit sharing	74.8	63.6	17.7%
Amortization of acquired intangible assets	53.2	48.9	8.9%
Restructuring charge	16.6		**
Acquired in-process research and development		40.0	(100.0)%
Fair value adjustment of contingent consideration	1.2		**
Total cost and expenses	$ 787.1	$ 805.2	(2.2)%

Cost of Sales, Excluding Amortization of Acquired Intangible Assets (Cost of Sales)

(In millions, except percentages)	For the Three Months Ended March 31, 2011	2010	Change %
Cost of sales	$ 103.1	$ 97.1	6.2%

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in cost of sales was primarily due to higher unit sales volume. We expect an increase in cost of sales for the full year 2011, relative to prior year comparative periods, as a result of an increase in expected contract manufacturing activity and increased production costs, beginning in the second half of 2011.

Research and Development

(In millions, except percentages)	For the Three Months Ended March 31, 2011	2010	Change %
Research and development	$ 293.6	$ 307.0	(4.4)%

For the three months ended March 31, 2011, compared to the same period in 2010, the decrease in research and development expense reflects our efforts to reallocate resources within our research and development organization consistent with our restructuring initiative. The savings expected to be achieved in 2011 upon comparison to 2010,

will be offset to some degree by research and development costs associated with initiatives to grow our business.

The decrease for the three month comparative period is primarily attributable to a reduction in spending related to certain programs which were terminated or are in the process of being discontinued as well as a reduction in workforce. This decrease is offset by an increase in R&D spend resulting from increased clinical trial activity for certain of our product candidates in or near registrational stage development, including among others, the BG-12, dexpramipexole, Factor VIII, and PEGylated interferon beta-1a programs as well as an increase in spending associated with our efforts to research and develop protocols that may reduce the risk and improve outcomes of PML in patients treated with TYSABRI.

We intend to continue committing significant resources on targeted research and development opportunities, where there is a significant unmet need and where the drug candidate has the potential to be highly differentiated. Specifically, we intend to make significant investments during 2011 in the advancement of BG-12 and our Factor VIII and Factor IX hemophilia programs. We also intend in 2011 to invest in bringing

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forward our MS pipeline and in pursuing life-saving and life-changing therapies for other neurodegenerative diseases, such as amyotrophic lateral sclerosis (ALS).

Milestone Payments

In March 2011, we dosed the first patient in a registrational study for dexpramipexole. The achievement of this milestone resulted in a $10.0 million payment due to Knopp Neurosciences, Inc. (Knopp). As we consolidate Knopp, we have recognized this payment as a charge to noncontrolling interests in the first quarter of 2011.

In April 2011, we submitted an Investigational New Drug application for beta-amyloid removal therapy (BART), which triggered a $15.0 million milestone payment due to Neurimmune SubOne AG (Neurimmune). BART is being developed for the treatment of Alzheimer s disease. As we consolidate Neurimmune, we will recognize this payment as a charge to noncontrolling interests in the second quarter of 2011.

Selling, General and Administrative

	For the Three Months Ended March 31,		
(In millions, except percentages)	**2011**	**2010**	**Change %**
Selling, general and administrative	$ 244.5	$ 248.7	(1.7)%

Selling, general and administrative expenses are primarily comprised of compensation and benefits associated with sales and marketing, finance, human resources, legal and other administrative personnel, outside marketing and legal expenses and other general and administrative costs.

For three months ended March 31, 2011 compared to the same period in 2010, the decrease in selling, general and administrative expenses reflects the impact of our restructuring initiatives, which is described below under the heading *Restructuring Charge.* The savings expected to be achieved upon comparison to 2010, will be offset to some degree by costs associated with initiatives to grow our business. The decrease for the three month comparative period was offset by increased sales and marketing activities in support of AVONEX and TYSABRI. Included within selling, general and administrative expenses for the three months ended March 31, 2010, is an incremental charge of approximately $10.6 million recognized related to the modification of equity based compensation in accordance with the transition agreement entered into with James C. Mullen, who retired as our President and Chief Executive Officer on June 8, 2010.

Collaboration Profit Sharing

	For the Three Months Ended March 31,		
(In millions, except percentages)	**2011**	**2010**	**Change %**
Collaboration profit sharing	$ 74.8	$ 63.6	17.7%

For the three months ended March 31, 2011, compared to the same period in 2010, the increase in collaboration profit sharing expense was due to the continued increase in TYSABRI rest of world sales resulting in higher rest of world net operating profits to be shared with Elan and resulting in growth in the third-party royalties Elan paid on behalf of

the collaboration. For the three months ended March 31, 2011 and 2010, our collaboration profit sharing expense included $13.0 million and $11.4 million, respectively, related to the reimbursement of third-party royalty payments made by Elan. For additional information related to this collaboration, please read Note 19, *Collaborations* to our consolidated financial statements included within our 2010 Form 10-K.

Amortization of Acquired Intangible Assets

	For the Three Months Ended March 31,		
(In millions, except percentages)	**2011**	**2010**	**Change %**
Amortization of acquired intangible assets	$ 53.2	$ 48.9	8.9%

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Our most significant intangible asset is the core technology related to our AVONEX product. Our amortization policy reflects our belief that the economic benefit of our core technology is consumed as revenue is generated from our AVONEX product. We refer to this amortization methodology as the economic consumption model, which involves calculating a ratio of actual current period sales to total anticipated sales for the life of the product and applying this ratio to the carrying amount of the intangible asset. An analysis of the anticipated lifetime revenue of AVONEX is performed at least annually during our long range planning cycle, and this analysis serves as the basis for the calculation of our economic consumption amortization model. Although we believe this process has allowed us to reliably determine the best estimate of the pattern in which we will consume the economic benefits of our core technology intangible asset, the model could result in deferring amortization charges to future periods in certain instances, due to continued sales of the product at a nominal level after patent expiration or otherwise. In order to ensure that amortization charges are not unreasonably deferred to future periods, we compare the amount of amortization determined under the economic consumption model against the minimum amount of amortization recalculated each year under the straight-line method and record the higher amount.

We completed our most recent long range planning cycle in the third quarter of 2010. This analysis is based upon certain assumptions that we evaluate on a periodic basis, such as the anticipated product sales of AVONEX and expected impact of competitor products and our own pipeline product candidates, as well as the issuance of new patents or the extension of existing patents. Based upon this analysis, we have continued to amortize this asset on the economic consumption model.

Based upon our most recent analysis, amortization for acquired intangible assets is expected to be in the range of approximately $180.0 million to $220.0 million annually through 2015.

We monitor events and expectations on product performance. If there are any indications that the assumptions underlying our most recent analysis would be different than those utilized within our current estimates, our analysis would be updated and may result in a significant change in the anticipated lifetime revenue of AVONEX determined during our most recent annual review. For example, the occurrence of an adverse event, such as the invalidation of our AVONEX 755 Patent issued in September 2009, could substantially increase the amount of amortization expense associated with our acquired intangible assets as compared to previous periods or our current expectations, which may result in a significant negative impact on our future results of operations.

Restructuring Charge

	For the Three Months Ended March 31,		
(In millions, except percentages)	**2011**	**2010**	**Change %**
Restructuring charge	$ 16.6	$	**

In November 2010, we announced a number of strategic, operational, and organizational initiatives designed to provide a framework for the future growth of our business and realign our overall structure to become a more efficient and cost effective organization. As part of this initiative:

- We terminated or are in the process of discontinuing certain research and development programs, including those in oncology and cardiovascular medicine that are no longer a strategic fit for our Company.

- We have substantially completed a 13% reduction in workforce spanning our sales, research and development, and administrative functions.

We are in the process of vacating the San Diego, California facility and consolidating our Massachusetts facilities. In October 2010, we sold the San Diego facility and agreed to lease back the facility for a period of 15 months. In January 2011, we entered into an agreement to terminate this lease effective August 31, 2011. For a more detailed description of these transactions, please read Note 11, *Property, Plant and Equipment* to our condensed consolidated financial statements included within this report.

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We expect to fully realize annual operating expense savings of approximately $300.0 million beginning in the second half of 2011 as result of these initiatives. The substantial majority of the savings will be realized within research and development and selling, general and administrative expense. These expected savings may be offset to some degree by costs associated with initiatives to grow our business.

We expect to incur restructuring charges totaling approximately $110.0 million associated with the implementation of these initiatives. Costs associated with our workforce reduction primarily relate to employee severance and benefits. Facility consolidation costs are primarily comprised of charges associated with the closing of facilities, related lease obligations and additional depreciation recognized when the expected useful lives of certain assets have been shortened due to the consolidation and closing of related facilities and the discontinuation of certain research and development programs.

For the three months ended March 31, 2011, we recognized restructuring charges totaling $16.6 million within our condensed consolidated statement of income, comprised of approximately $12.1 million for workforce reduction and $4.5 million for facility consolidation, of which $3.5 million relates to additional depreciation. We previously recognized $75.2 million of restructuring charges within our consolidated statement of income during the fourth quarter of 2010. We expect that our restructuring efforts will be substantially completed, and that substantially all of the remaining restructuring charges will be incurred and paid by the end of 2011.

The following table summarizes the activity of our restructuring liability:

(In millions)	Workforce Reduction	Facility Consolidation	Total
Restructuring reserve as of December 31, 2010	$ 60.6	$ 5.8	$ 66.4
Expense	10.5	0.9	11.4
(Payments) receipts, net	(64.0)	(0.4)	(64.4)
Adjustments to previous estimates, net	1.7		1.7
Other adjustments	8.6	(3.2)	5.4
Restructuring reserve as of March 31, 2011	$ 17.4	$ 3.1	$ 20.5

Acquired In-Process Research and Development (IPR&D)

(In millions, except percentages)	For the Three Months Ended March 31, 2011	2010	Change %
Acquired in-process research and development	$	$ 40.0	(100.0)%

In connection with our acquisition of Biogen Idec Hemophilia Inc., formerly Syntonix Pharmaceuticals, Inc. (Syntonix), in January 2007, we agreed to make additional future consideration payments based upon the achievement of certain milestone events. One of these milestones was achieved when, in January 2010, we initiated patient enrollment in a registrational trial of Factor IX in hemophilia B. As a result of the achievement of this we paid approximately $40.0 million to the former shareholders of Syntonix, which was reflected as a charge to acquired

IPR&D within our condensed consolidated statement of income for the three months ended March 31, 2010.

Fair Value Adjustment of Contingent Consideration

(In millions, except percentages)	For the Three Months Ended March 31, 2011	2010	Change %
Fair value adjustment of contingent consideration	$ 1.2	$	**

In December 2010, we completed our acquisition of 100% of the stock of Panima Pharmaceuticals AG (Panima), an affiliate of Neurimmune AG. The purchase price was comprised of a $32.5 million cash payment, plus up to $395.0 million in contingent cash consideration payable upon the achievement of development

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milestones. Upon acquisition, we recorded a liability of $81.2 million representing the acquisition date fair value of the contingent consideration. Subsequent changes in the fair value of this obligation are recognized as adjustments to contingent consideration within our consolidated statements of income. As of March 31, 2011, the fair value of the total contingent consideration obligation was $82.4 million. The change in fair value of this obligation was primarily due to changes in the expected timing related to the achievement of certain developmental milestones and was recognized as a fair value adjustment of contingent consideration within our condensed consolidated statement of income for the three months ended March 31, 2011.

Other Income (Expense), Net

(In millions, except percentages)	For the Three Months Ended March 31, 2011	2010	Change %
Interest income	$ 3.7	$ 8.9	(58.4)%
Interest expense	(9.2)	(8.3)	10.8%
Impairments of investments	(1.2)	(15.8)	(92.4)%
Foreign exhange gains (losses), net	(0.4)	1.0	(140.0)%
Gain on sale of investments, net	15.3	5.0	206.0%
Other, net	1.8	0.8	125.0%
Total other income (expense), net	$ 10.0	$ (8.4)	219.0%

Interest Income

For the three months ended March 31, 2011, compared to the same period in 2010, interest income decreased primarily due to lower yields on cash, cash equivalents, and marketable securities and lower average cash balances.

Interest Expense

For the three months ended March 31, 2011, compared to the same period in 2010, interest expense remained relatively unchanged.

We capitalized interest costs related to construction in progress totaling approximately $7.5 million, and $7.8 million for the three months ended March 31, 2011 and 2010, respectively, which reduced our interest expense by the same amount. Capitalized interest costs are primarily related to the development of our large-scale biologic manufacturing facility in Hillerød, Denmark. We plan to stop further validation on the facility in the near term as we continue to evaluate our current manufacturing strategy. Upon completion of the facility s operational qualification activities, we plan to cease capitalizing interest expense in relation to this project unless we move forward to process validation activities. Recent manufacturing improvements have resulted in favorable production yields on TYSABRI, that along with slower than expected TYSABRI growth, have reduced our expected capacity requirements. As a result, we have decided to delay the start of manufacturing activities at this site until additional capacity is required by the business.

Impairment on Investments

For the three months ended March 31, 2011, we recognized $1.2 million in charges for the impairment of our investments in venture capital funds and investments in privately-held companies. No impairments were recognized in

relation to our publicly-held strategic investments.

For the three months ended March 31, 2010, we recognized $15.8 million in charges for the impairment of our publicly-held strategic investments, investments in venture capital funds and investments in privately-held companies, which was primarily due to one of our strategic investments executing an equity offering at a price below our cost basis during the first quarter of 2010.

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Gain on Sale of Investments, net

For the three months ended March 31, 2011 and 2010, we realized net gains of $15.3 million and $5.0 million, respectively, on the sale of investments. The gains for the three months ended March 31, 2011 include a gain of $13.8 million on the sale of stock from our strategic investment portfolio that was deemed to be no longer strategic. The gains for the three months ended March 31, 2010 were due to sales of marketable securities.

Income Tax Provision

	For the Three Months Ended March 31,		
(In millions, except percentages)	**2011**	**2010**	**Change %**
Effective tax rate on pre-tax income	27.6%	25.5%	8.2%
Income tax expense	$ 117.5	$ 75.3	56.0%

Our effective tax rate fluctuates from year to year due to the nature of our global operations. The factors that most significantly impact our effective tax rate include variability in the allocation of our taxable earnings between multiple jurisdictions, changes in tax laws, acquisitions and licensing transactions.

The increase in our tax rate for the three months ended March 31, 2011, compared to the same period in 2010, was primarily a result of an increased percentage of our 2011 profits being earned in higher tax rate jurisdictions, principally the U.S., due in part to our 2010 restructuring initiative. In addition, a 2010 reorganization of certain of our international operations also resulted in a benefit in the first quarter of 2010, the period of reorganization. These factors were partially offset by the 2011 settlement of an outstanding IRS audit matter and an increase in research and development expenses eligible for orphan drug credit.

For a detailed income tax rate reconciliation for the three months ended March 31, 2011 and 2010, please read Note 16, *Income Taxes* to our condensed consolidated financial statements included within this report.

Noncontrolling Interests

	For the Three Months Ended March 31,		
(In millions)	**2011**	**2010**	**Change %**
Net income attributable to noncontrolling interests, net of tax	$ 14.4	$ 2.6	453.9%

For the three months ended March 31 2011, compared to the same period in 2010, the change in net income attributable to noncontrolling interests primarily resulted from the attribution of a $10.0 million milestone payment due to Knopp, offset by the attribution of earnings from our foreign joint ventures, which were relatively consistent in each period.

In April 2011, we submitted an Investigational New Drug application for beta-amyloid removal therapy (BART), which triggered a $15.0 million milestone payment due to Neurimmune. As we consolidate Neurimmune, we will recognize this payment as a charge to noncontrolling interests in the second quarter of 2011.

Market Risk

We conduct business globally. As a result, our international operations are subject to certain opportunities and risks which may affect our results of operations, including volatility in foreign currency exchange rates or weak economic conditions in the foreign markets in which we operate.

Foreign Currency Exchange Risk

Our results of operations are subject to foreign currency exchange rate fluctuations due to the global nature of our operations. While the financial results of our global activities are reported in U.S. dollars, the functional currency for most of our foreign subsidiaries is their respective local currencies. Fluctuations in the foreign currency exchange rates of the countries in which we do business will affect our operating results, often in ways that are difficult to predict. For example, when the U.S. dollar strengthens against foreign currencies, the relative value of sales made in the respective foreign currencies decreases, conversely, when the U.S. dollar weakens against foreign currencies, the relative amount of such sales in U.S. dollars increases.

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Our net income may also fluctuate due to the impact of our foreign currency hedging program, which is designed to mitigate, over time, a portion of the impact resulting from volatility in exchange rate changes on net income and earnings per share. We use foreign currency forward contracts to manage foreign currency risk with the majority of our forward contracts used to hedge certain forecasted revenue transactions denominated in foreign currencies. Foreign currency gains or losses arising from our operations are recognized in the period in which we incur those gains or losses.

Pricing Pressure

We operate in certain countries where the economic conditions continue to present significant challenges. Many countries are reducing their public expenditures in light of the global economic downturn and the deterioration of the credit and economic conditions in certain countries in Europe. As a result, we expect to see continued efforts to reduce healthcare costs, particularly in certain of the international markets in which we operate. The implementation of pricing actions varies by country and certain measures already implemented, which include among other things, mandatory price reductions and suspensions on pricing increases on pharmaceuticals, have negatively impacted our revenues. In addition, certain countries set prices by reference to the prices in other countries where our products are marketed. Thus, our inability to secure adequate prices in a particular country may also impair our ability to obtain acceptable prices in existing and potential new markets. We expect that our revenues and results of operations will be further negatively impacted if these, similar or more extensive measures are, or continue to be, implemented in other countries in which we operate.

Credit Risk

We are subject to credit risk from our accounts receivable related to our product sales. The majority of our accounts receivable arise from product sales in the U.S. and Europe with concentrations of credit risk generally limited due to the wide variety of customers and markets using our products, as well as their dispersion across many different geographic areas. Our accounts receivable are primarily due from wholesale distributors, large pharmaceutical companies and public hospitals. We monitor the financial performance and credit worthiness of our large customers so that we can properly assess and respond to changes in their credit profile. We operate in certain countries where the economic conditions continue to present significant challenges. We continue to monitor these conditions, including the volatility associated with international economies and associated impacts on the relevant financial markets and our business. Our historical write-offs of accounts receivable have not been significant.

Within the European Union, our product sales in Italy, Spain and Portugal continue to be subject to significant payment delays due to government funding and reimbursement practices. The credit and economic conditions within these countries have deteriorated throughout 2010. These conditions have resulted in, and may continue to result in, an increase in the average length of time that it takes to collect on our accounts receivable outstanding in these countries. As of March 31, 2011, our accounts receivable balances in Italy, Spain and Portugal totaled $141.3 million, $113.9 million and $28.7 million, respectively, totaling approximately $283.9 million. Approximately $70.0 million of this amount was outstanding for greater than one year. As of March 31, 2011, we had $69.6 million of receivables that are expected to be collected beyond one year, which are included as a component of investments and other assets within our condensed consolidated balance sheet.

Our concentrations of credit risk related to our accounts receivable from product sales in Greece to date have been limited as our receivables within this market are due from our distributor. As of March 31, 2011, our accounts receivable balances due from our distributor in Greece totaled $7.1 million. These receivables remain current and substantially in compliance with their contractual due dates. However, the majority of the sales by our distributor are to government funded hospitals and as a result our distributor maintains significant outstanding receivables with the government of Greece. In the event that Greece defaults on its debt and is unable to pay our distributor, we may be

unable to collect some or all of our remaining amounts due from the distributor.

In addition, the government of Greece may also require pharmaceutical creditors to accept mandatory, retroactive, price deductions in settlement of outstanding receivables and in this event we could be required to repay our distributor a portion of the amounts they have previously remitted to us. To date, we have not been required to repay such amounts to our distributor or take a discount in settlement of any outstanding receivables.

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We believe that our allowance for doubtful accounts was adequate as of March 31, 2011; however, if significant changes occur in the availability of government funding or the reimbursement practices of these or other governments, we may not be able to collect on amounts due to us from customers in such countries and our results of operations could be adversely affected.

Financial Condition and Liquidity

Our financial condition is summarized as follows:

(In millions, except percentages)	As of March 31, 2011	As of December 31, 2010	Change %
Financial assets:			
Cash and cash equivalents	$ 790.7	$ 759.6	4.1%
Marketable securities current	437.9	448.1	(2.3)%
Marketable securities non-current	885.4	743.1	19.2%
Total financial assets	$ 2,114.0	$ 1,950.8	8.4%
Borrowings:			
Current portion of notes payable, line of credit and other financing arrangements	$ 134.8	$ 137.2	(1.7)%
Notes payable and line of credit	1,065.6	1,066.4	(0.1)%
Total borrowings	$ 1,200.4	$ 1,203.5	(0.3)%
Working Capital:			
Current assets	$ 2,628.3	$ 2,540.4	3.5%
Current liabilities	(978.8)	(1,050.1)	(6.8)%
Working capital	$ 1,649.5	$ 1,490.3	10.7%

For the three months ended March 31, 2011, certain significant cash flows were as follows:

$195.3 million used for share repurchases;

$120.6 million in net proceeds used for the purchase of marketable securities;

$91.2 million in proceeds from the issuance of stock for share-based compensation arrangements;

$39.8 million in proceeds received on the sale of a strategic investment; and

$32.1 million used for purchases of property, plant and equipment.

For the three months ended March 31, 2010, certain significant cash flows were as follows:

$577.6 million used for share repurchases;

$329.6 million in net proceeds received on sales and maturities of marketable securities;

$52.8 million in proceeds from the issuance of stock for share-based compensation arrangements;

$40.0 million payment made to the former shareholders of Syntonix recognized as IPR&D expense; and

$38.2 million used for purchases of property, plant and equipment.

We have historically financed our operating and capital expenditures primarily through positive cash flows earned through our operations. We expect to continue funding our current and planned operating requirements principally through our cash flows from operations, as well as our existing cash resources. We believe that existing funds, when combined with cash generated from operations and our access to additional financing resources, if needed, are sufficient to satisfy our operating, working capital, strategic alliance,

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milestone payment, capital expenditure and debt service requirements for the foreseeable future. In addition, we may choose to opportunistically return cash to shareholders and pursue other business initiatives, including acquisition and licensing activities. We may, from time to time, also seek additional funding through a combination of new collaborative agreements, strategic alliances and additional equity and debt financings or from other sources should we identify a significant new opportunity.

We consider the unrepatriated cumulative earnings of certain of our foreign subsidiaries to be invested indefinitely outside the U.S. Of the total cash, cash equivalents and marketable securities at March 31, 2011, approximately $0.9 billion was generated from operations in foreign jurisdictions and is intended for use in our foreign operations. In managing our day-to-day liquidity in the U.S., we do not rely on the unrepatriated earnings as a source of funds and we have not provided for U.S. federal or state income taxes on these undistributed foreign earnings.

For additional information related to certain risks that could negatively impact our financial position or future results of operations, please read the *Risk Factors* and *Quantitative and Qualitative Disclosures About Market Risk* sections of this report.

Preferred Stock

In March 2011, 8,221 shares of our Series A Preferred Stock, which represented all preferred shares outstanding, were converted into shares of common stock by the holder pursuant to the conversion terms of the Series A Preferred Stock. As a result we issued 493,260 shares of common stock and no other shares of Preferred Stock remain issued and outstanding as of March 31, 2011.

Share Repurchase Programs

In February 2011, our Board of Directors authorized the repurchase of up to 20 million shares of our common stock. We expect to use this repurchase program principally to offset common stock issuance under our share-based compensation plans. This repurchase program does not have an expiration date. Under this authorization, we repurchased approximately 2.8 million shares of our common stock at a cost of $195.3 million during the first quarter of 2011. From April 1, 2011 through April 21, 2011, we repurchased an additional 1.0 million shares under this program at a total cost of $75.7 million. Approximately 16.2 million shares remain available for repurchase under the 2011 repurchase program.

In October 2009, our Board of Directors authorized the repurchase of up to $1.0 billion of our common stock with the objective of reducing shares outstanding. This repurchase program was completed in the first quarter of 2010. For the three months ended March 31, 2010, we repurchased approximately 10.5 million shares of our common stock at a cost of $577.6 million under our 2009 authorization. We retired these shares as they were acquired.

Cash, Cash Equivalents and Marketable Securities

Until required for another use in our business, we invest our cash reserves in bank deposits, certificates of deposit, commercial paper, corporate notes, U.S. and foreign government instruments and other interest bearing marketable debt instruments in accordance with our investment policy. We mitigate credit risk in our cash reserves and marketable securities by maintaining a well diversified portfolio that limits the amount of investment exposure as to institution, maturity, and investment type. The value of our investments, however, may be adversely affected by increases in interest rates, downgrades in the credit rating of the corporate bonds included in our portfolio, instability in the global financial markets that reduces the liquidity of securities included in our portfolio, and by other factors which may result in declines in the value of the investments. Each of these events may cause us to record charges to reduce the carrying value of our investment portfolio if the declines are other-than-temporary or sell investments for

less than our acquisition cost which could adversely impact our financial position and our overall liquidity. For a summary of the fair value and valuation methods of our marketable securities please read Note 8, *Fair Value Measurements* to our condensed consolidated financial statements included within this report.

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The increase in cash, cash equivalents and marketable securities from December 31, 2010, is primarily due to cash flows provided by operations, proceeds from the issuance of stock for share-based compensation arrangements, and proceeds received from the sale of a strategic investment offset by share repurchases and purchases of property, plant and equipment.

Borrowings

There have been no significant changes in our borrowings since December 31, 2010.

We have a $360.0 million senior unsecured revolving credit facility, which we may choose to use for future working capital and general corporate purposes. The terms of this revolving credit facility include various covenants, including financial covenants that require us to not exceed a maximum leverage ratio and, under certain circumstances, an interest coverage ratio. This facility terminates in June 2012. No borrowings have ever been made under this credit facility and as of March 31, 2011 and December 31, 2010 we were in compliance with all applicable covenants.

For a summary of the fair and carrying value of our outstanding borrowings as of March 31, 2011 and December 31, 2010, please read Note 8, *Fair Value Measurements* to our condensed consolidated financial statements included within this report.

Working Capital

We define working capital as current assets less current liabilities. The increase in working capital from December 31, 2010, primarily reflects the overall net increase in total current assets of $87.9 million and overall net decrease in total current liabilities of $71.3 million.

The increase in total current assets was primarily due to the increase in accounts receivable, net. The reduction in total current liabilities primarily reflects the net decrease in amounts included within accrued expenses and other. This decrease was primarily related to the payment of 2010 annual bonus amounts due to employees, a reduction in accrued restructuring costs payable and the payment of interest on our Senior Notes, which is payable March 1 and September 1 of each year, offset by an increase in reserves established for rebates and allowances related to the U.S. healthcare reform legislation.

Cash Flows

The following table summarizes our cash flow activity:

	For the Three Months Ended March 31,		
(In millions, except percentages)	**2011**	**2010**	**Change %**
Net cash flows provided by operating activities	$ 253.6	$ 336.9	(24.7)%
Net cash flows (used in) provided by investing activities	$ (126.8)	$ 249.7	(150.8)%
Net cash flows used in financing activities	$ (99.8)	$ (523.5)	80.9%

Operating Activities

Cash flows from operating activities represent the cash receipts and disbursements related to all of our activities other than investing and financing activities. Cash provided by operating activities is primarily driven by our earnings and

changes in working capital. We expect cash provided from operating activities will continue to be our primary source of funds to finance operating needs and capital expenditures for the foreseeable future.

Operating cash flow is derived by adjusting our net income for:

Non-cash operating items such as depreciation and amortization, impairment charges and share-based compensation charges;

Changes in operating assets and liabilities which reflect timing differences between the receipt and payment of cash associated with transactions and when they are recognized in results of operations; and

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Changes associated with the payment of contingent milestones associated with our prior acquisitions of businesses.

The decrease in cash provided by operating activities for the three months ended March 31, 2011, compared to the same period in 2010, was primarily driven by an increase in accounts receivable and receivables due from unconsolidated joint business offset by increased revenues.

Investing Activities

For the three months ended March 31, 2011, compared to the same period in the prior year, the decrease in net cash flows provided by investing activities is primarily due to net purchases of marketable securities totaling $120.6 million during the first quarter of 2011 compared to net proceeds received from sales and maturities of marketable securities of $329.6 million in the prior year comparative period.

Financing Activities

The decrease in net cash flows used in financing activities is due principally to decreases in the amounts of our common stock we repurchased compared to the same period in 2010. For the three months ended March 31, 2011, we repurchased approximately 2.8 million shares of our common stock for approximately $195.3 million compared to 10.5 million shares for approximately $577.6 million for the three months ended March 31, 2010.

Cash used in financing activities also includes activity under our employee stock plans. We received $91.2 million during the first three months of 2011 and $52.8 million during the first three months of 2010 related to stock option exercises and stock issuances under our employee stock purchase plan.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

Our contractual obligations primarily consist of our obligations under non-cancellable operating leases, our notes payable and line of credit and other purchase obligations, excluding amounts related to uncertain tax positions, amounts payable to tax authorities, funding commitments, contingent milestone payments, contingent consideration, our financing arrangement related to the San Diego facility and other off-balance sheet arrangements as described below.

There have been no other significant changes in our contractual obligations since December 31, 2010.

Financing Arrangement

As described in Note 11 *Property, Plant & Equipment* to our condensed consolidated financial statements included within this report, on October 1, 2010, we sold the San Diego facility and agreed to lease back the facility for a period of 15 months. We have accounted for these transactions as a financing arrangement and recorded an obligation of $127.0 million on that date. As of March 31, 2011, our remaining obligation was $125.0 million, which is reflected as a component of current portion of notes payable, line of credit and other financing arrangements within our condensed consolidated balance sheet.

In January 2011, we entered into an agreement to terminate our 15 month lease of the San Diego facility in August 31, 2011 and will have no continuing involvement or remaining obligation after that date. Once the lease arrangement has

concluded we will account for the San Diego facility as a sale of property and we do not expect to recognize a significant gain or loss on the sale at that time. We are scheduled to incur debt service payments and interest totaling approximately $6.9 million over the term of the revised leaseback period.

Tax Related Obligations

We exclude liabilities pertaining to uncertain tax positions from our summary of contractual obligations as we cannot make a reliable estimate of the period of cash settlement with the respective taxing authorities. As of March 31, 2011, we have approximately $87.0 million of liabilities associated with uncertain tax positions.

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Included in these liabilities are amounts related to the settlement of our federal audit in the fourth quarter of 2009. As of March 31, 2011, we expect to pay approximately $30.1 million within the next six months.

Other Funding Commitments

As of March 31, 2011, we have funding commitments of up to approximately $18.6 million as part of our investment in biotechnology oriented venture capital investments.

As of March 31, 2011, we have several ongoing clinical studies in various clinical trial stages. Our most significant clinical trial expenditures are to clinical research organizations (CROs). The contracts with CROs are generally cancellable, with notice, at our option. We have recorded accrued expenses of $18.3 million on our condensed consolidated balance sheet for expenditures incurred by CROs as of March 31, 2011. We have approximately $287.3 million in cancellable future commitments based on existing CRO contracts as of March 31, 2011, which are not included in the contractual obligations table above because of our termination rights.

Contingent Milestone Payments

Based on our development plans as of March 31, 2011, we have committed to make potential future milestone payments to third parties of up to approximately $1.4 billion as part of our various collaborations, including licensing and development programs. Payments under these agreements generally become due and payable only upon achievement of certain development, regulatory or commercial milestones. Because the achievement of these milestones had not occurred as of March 31, 2011, such contingencies have not been recorded in our financial statements.

We anticipate that we may pay approximately $25.0 million of additional milestone payments during the remainder of 2011, provided various development, regulatory or commercial milestones are achieved. Amounts related to contingent milestone payments are not considered contractual obligations as they are contingent on the successful achievement of certain development, regulatory approval and commercial milestones. These milestones may not be achieved.

Contingent Consideration

In connection with our acquisitions of Panima Pharmaceuticals AG, Biogen Idec Hemophilia, Inc., and Fumapharm AG, we agreed to make additional consideration payments based upon the achievement of certain milestone events. Amounts related to contingent consideration obligations are not considered contractual obligations as they generally become due and payable only when a contingency is satisfied. These milestones may not be achieved.

We completed our acquisition of Panima Pharmaceuticals AG (Panima) in the fourth quarter of 2010. The purchase price for Panima included contingent consideration in the form of developmental milestones up to $395.0 million in cash. For additional information related to our acquisition of Panima, please read Note 2, *Acquisitions* to our condensed consolidated financial statements included within this report.

In connection with our acquisition of Biogen Idec Hemophilia Inc. (BIH), formerly Syntonix Pharmaceuticals, Inc. (Syntonix), in January 2007, we agreed to make additional future consideration payments in the total amount of $80.0 million, $40.0 million each, respectively, based upon the achievement of certain milestone events associated with the development of BIH s lead product, long-lasting recombinant Factor IX. The first $40.0 million contingent payment was achieved in the first quarter of 2010. $20.0 million of the second contingent payment will occur if prior to the tenth anniversary of the closing date the FDA grants approval of a Biologic License Application for Factor IX. An additional $20.0 million second contingent payment will occur if prior to the tenth anniversary of the closing date,

a marketing authorization is granted by EMA for Factor IX.

In 2006, we acquired Fumapharm AG. As part of this acquisition we acquired FUMADERM and BG-12 (Fumapharm Products). We paid $220.0 million upon closing of the transaction and will pay an additional $15.0 million if a Fumapharm Product is approved for MS in the U.S. or E.U. We may also make additional milestone payments based on sales of Fumapharm Products in any indication. These milestone payments are considered contingent consideration. For additional discussion regarding the amount of potential additional

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consideration payments, please read the subsection entitled *Key Pipeline Development BG-12* in the *Management s Discussion and Analysis of Financial Condition and Results of Operations* section of this report.

Other Off-Balance Sheet Arrangements

We do not have any relationships with entities often referred to as structured finance or special purpose entities which would have been established for the purpose of facilitating off-balance sheet arrangements. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We consolidate variable interest entities if we are the primary beneficiary.

Legal Matters

For a discussion of legal matters as of March 31, 2011, please read Note 19, *Litigation* to our condensed consolidated financial statements included within this report.

New Accounting Standards

For a discussion of new accounting standards please read Note 21, *New Accounting Pronouncements* to our condensed consolidated financial statements included within this report.

Critical Accounting Estimates

The preparation of our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP), requires us to make estimates, judgments and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We believe the most complex judgments result primarily from the need to make estimates about the effects of matters that are inherently uncertain and are significant to our condensed consolidated financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. We evaluate our estimates, judgments and assumptions on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

For a discussion of our critical accounting estimates, please read Part II, Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations* of our 2010 Form 10-K.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Our market risks, and the ways we manage them, are summarized in Part II, Item 7A, *Quantitative and Qualitative Disclosures About Market Risk* of our 2010 Form 10-K. There have been no material changes in the first three months of 2011 to our market risks or to our management of such risks.

Item 4. ***Controls and Procedures***

Disclosure Controls and Procedures and Internal Control over Financial Reporting

Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our

disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of March 31, 2011. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that (a) the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow

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timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II OTHER INFORMATION

Item 1. *Legal Proceedings*

Please refer to Note 19, *Litigation* to our condensed consolidated financial statements included within this report, which is incorporated into this item by reference.

Item 1A. *Risk Factors*

We are substantially dependent on revenues from our three principal products.

Our current and future revenues depend upon continued sales of our three principal products, AVONEX, RITUXAN and TYSABRI, which represented substantially all of our total revenues during the first quarter of 2011. Although we have developed and continue to develop additional products for commercial introduction, we may be substantially dependent on sales from these three products for many years. Any negative developments relating to any of these products, such as safety or efficacy issues, the introduction or greater acceptance of competing products, including biosimilars, or adverse regulatory or legislative developments, may reduce our revenues and adversely affect our results of operations. New competing products for use in multiple sclerosis are beginning to enter the market and if they have a similar or more attractive profile in terms of efficacy, convenience or safety, future sales of AVONEX and TYSABRI could be limited, which would reduce our revenues.

TYSABRI s sales growth is important to our success.

We expect that our revenue growth over the next several years will be dependent in part upon sales of TYSABRI. If we are not successful in growing sales of TYSABRI, our future business plans, revenue growth and results of operations may be adversely affected.

TYSABRI s sales growth cannot be certain given the significant restrictions on use and the significant safety warnings in the label, including the risk of developing progressive multifocal leukoencephalopathy (PML), a serious brain infection. The risk of developing PML increases with prior immunosuppressant use, which may cause patients who have previously received immunosuppressants or their physicians to refrain from using or prescribing TYSABRI. The risk of developing PML also increases with longer treatment duration, with limited experience beyond four years. This may cause prescribing physicians or patients to suspend treatment with TYSABRI. Increased incidences of PML could limit sales growth, prompt regulatory review, require significant changes to the label or result in market withdrawal. Additional regulatory restrictions on the use of TYSABRI or safety-related label changes, including enhanced risk management programs, whether as a result of additional cases of PML or otherwise, may significantly reduce expected revenues and require significant expense and management time to address the associated legal and regulatory issues. In addition, ongoing or future clinical trials involving TYSABRI and efforts at stratifying patients into groups with lower or higher risk for developing PML, including evaluating the potential clinical utility of a JC

virus antibody assay, may have an adverse impact on prescribing behavior and reduce sales of TYSABRI.

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If we fail to compete effectively, our business and market position would suffer.

The biotechnology and pharmaceutical industry is intensely competitive. We compete in the marketing and sale of our products, the development of new products and processes, the acquisition of rights to new products with commercial potential and the hiring and retention of personnel. We compete with biotechnology and pharmaceutical companies that have a greater number of products on the market and in the product pipeline, greater financial and other resources and other technological or competitive advantages. One or more of our competitors may benefit from significantly greater sales and marketing capabilities, may develop products that are accepted more widely than ours and may receive patent protection that dominates, blocks or adversely affects our product development or business. In addition, healthcare reform legislation enacted in the U.S. in 2010 has created a pathway for the U.S. Food and Drug Administration (FDA) to approve biosimilars, which could compete on price and differentiation with products that we now or could in the future market. The introduction of more efficacious, safer, cheaper, or more convenient alternatives to our products could reduce our revenues and the value of our product development efforts.

Our long-term success depends upon the successful development and commercialization of other product candidates.

Our long-term viability and growth will depend upon the successful development and commercialization of new products from our research and development activities, including products licensed from third parties. We have several late-stage clinical programs expected to have near-term data readouts that could impact our prospects for additional revenue growth. Product development and commercialization are very expensive and involve a high degree of risk. Only a small number of research and development programs result in the commercialization of a product. Success in preclinical work or early stage clinical trials does not ensure that later stage or larger scale clinical trials will be successful. Even if later stage clinical trials are successful, product candidates may not receive marketing approval if regulatory authorities disagree with our view of the data or require additional studies.

Conducting clinical trials is a complex, time-consuming and expensive process. Our ability to complete our clinical trials in a timely fashion depends in large part on a number of key factors including protocol design, regulatory and institutional review board approval, the rate of patient enrollment in clinical trials, and compliance with extensive current good clinical practice requirements. We have opened clinical sites and are enrolling patients in a number of new countries where our experience is more limited, and we are in many cases using the services of third-party clinical trial providers. If we fail to adequately manage the design, execution and regulatory aspects of our large, complex and diverse clinical trials, our studies and ultimately our regulatory approvals may be delayed or we may fail to gain approval for our product candidates altogether.

Our product pipeline includes several small molecule drug candidates. Our small molecule drug discovery platform is not as well developed as our biologics platform and we expect to rely on third party manufacturers to supply substantially all of our clinical requirements for small molecules. If these manufacturers fail to deliver sufficient quantities of such drug candidates in a timely and cost-effective manner, it could adversely affect our small molecule drug discovery efforts.

Adverse safety events can negatively affect our business and stock price.

Adverse safety events involving our marketed products may have a negative impact on our commercialization efforts. Later discovery of safety issues with our products that were not known at the time of their approval by the FDA or other regulatory agencies worldwide could cause product liability events, additional regulatory scrutiny and requirements for additional labeling, withdrawal of products from the market and the imposition of fines or criminal penalties. Any of these actions could result in, among other things, material write-offs of inventory and impairments of intangible assets, goodwill and fixed assets and material restructuring charges. In addition, the reporting of adverse

safety events involving our products and public rumors about such events could cause our stock price to decline or experience periods of volatility.

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We depend, to a significant extent, on reimbursement from third party payors and a reduction in the extent of reimbursement could reduce our product sales and revenue.

Sales of our products are dependent, in large part, on the availability and extent of reimbursement from government health administration authorities, private health insurers and other organizations. Changes in government regulations or private third-party payors reimbursement policies may reduce reimbursement for our products and adversely affect our future results. In addition, when a new medical product is approved, the availability of government and private reimbursement for that product is uncertain, as is the amount for which that product will be reimbursed. We cannot predict the availability or amount of reimbursement for our product candidates.

The U.S. Congress enacted legislation in 2010 to reform the health care system. This legislation imposes cost containment measures that have adversely affected the amount of reimbursement for our products and may negatively affect our revenues and prospects for profitability in the future. For a more detailed description of this legislation s impact on our business, please read *Management s Discussion and Analysis of Financial Condition and Results of Operations* within this report.

Economic pressure on state budgets may result in states increasingly seeking to achieve budget savings through mechanisms that limit coverage or payment for our drugs. In recent years, some states have considered legislation that would control the prices of drugs. State Medicaid programs are increasingly requesting manufacturers to pay supplemental rebates and requiring prior authorization by the state program for use of any drug for which supplemental rebates are not being paid. Managed care organizations continue to seek price discounts and, in some cases, to impose restrictions on the coverage of particular drugs. Government efforts to reduce Medicaid expenses may lead to increased use of managed care organizations by Medicaid programs. This may result in managed care organizations influencing prescription decisions for a larger segment of the population and a corresponding constraint on prices and reimbursement for our products. It is likely that federal and state legislatures and health agencies will continue to focus on additional health care reform in the future.

We encounter similar regulatory and legislative issues in most other countries. In the European Union and some other international markets, the government provides health care at low cost to consumers and regulates pharmaceutical prices, patient eligibility or reimbursement levels to control costs for the government-sponsored health care system. Many countries are reducing their public expenditures and we expect to see strong efforts to reduce healthcare costs in our international markets, including patient access restrictions, suspensions on price increases, prospective and possibly retroactive price reductions and increased mandatory discounts or rebates, recoveries of past price increases, and greater importation of drugs from lower-cost countries to higher-cost countries. We expect that our revenues would be negatively impacted if similar measures are or continued to be implemented in other countries in which we operate. In addition, certain countries set prices by reference to the prices in other countries where our products are marketed. Thus, our inability to secure adequate prices in a particular country may also adversely affect our ability to obtain acceptable prices in both existing and potential new markets. This may create the opportunity for third party cross border trade or influence our decision to sell or not to sell a product, thus adversely affecting our geographic expansion plans and revenues.

Adverse market and economic conditions may exacerbate certain risks affecting our business.

Sales of our products are dependent on reimbursement from government health administration authorities, private health insurers, distribution partners and other organizations. As a result of adverse conditions affecting the U.S. and global economies and credit and financial markets, including the current sovereign debt crisis in certain countries in Europe and disruptions due to natural disasters, political instability or otherwise, these organizations may be unable to satisfy their reimbursement obligations or may delay payment. In addition, governmental health authorities may reduce the extent of reimbursements, and private insurers may increase their scrutiny of claims. A reduction in the

availability or extent of reimbursement could reduce our product sales and revenue, or result in additional allowances or significant bad debts, which may adversely affect our results of operations.

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We depend on collaborators and other third-parties for both product and royalty revenue and the clinical development of future products, which are outside of our full control.

Collaborations between companies on products or programs are a common business practice in the biotechnology industry. Out-licensing typically allows a partner to collect up front payments and future milestone payments, share the costs of clinical development and risk of failure at various points, and access sales and marketing infrastructure and expertise in exchange for certain financial rights to the product or program going to the in-licensing partner. In addition, the obligation of in-licensees to pay royalties or share profits generally terminates upon expiration of the related patents. We have a number of collaborators and partners, and have both in-licensed and out-licensed several products and programs. These collaborations are subject to several risks:

Our RITUXAN revenues are dependent on the efforts of Genentech and the Roche Group. Their interests may not always be aligned with our interests and they may not market RITUXAN in the same manner or to the same extent that we would, which could adversely affect our RITUXAN revenues.

Under our collaboration agreement with Genentech, the successful development and commercialization of GA101 and certain other anti-CD20 products will decrease our percentage of the collaboration s co-promotion profits.

We are not fully in control of the royalty or profit sharing revenues we receive from collaborators, which may be adversely affected by patent expirations, pricing or health care reforms, other legal and regulatory developments, and the introduction of competitive products, and new indication approvals which may affect the sales of collaboration products.

Any failure on the part of our collaboration partners to comply with applicable laws and regulatory requirements in the sale and marketing of our products could have an adverse effect on our revenues as well as involve us in possible legal proceedings.

Collaborations often require the parties to cooperate, and failure to do so effectively could have an adverse impact on product sales by our collaborators and partners, and could adversely affect the clinical development or regulatory approvals of products under joint control.

In addition, we rely on third parties for several other aspects of our business. As a sponsor of clinical trials of our products, we rely on third party contract research organizations to carry out many of our clinical trial related activities. These activities include initiating the conduct of studies at clinical trial sites, regularly monitoring the conduct of the study at study sites, and identifying instances of noncompliance with the study protocol or current Good Clinical Practices. The failure of a contract research organization to conduct these activities with proper vigilance and competence and in accordance with Good Clinical Practices can result in regulatory authorities rejecting our clinical trial data or, in some circumstances, the imposition of civil or criminal sanctions against us.

If we do not successfully execute our growth initiatives through the acquisition, partnering and in-licensing of products, technologies or companies, our future performance could be adversely affected.

We anticipate growing through both internal development projects as well as external opportunities, which include the acquisition, partnering and in-licensing of products, technologies and companies or the entry into strategic alliances and collaborations. The availability of high quality opportunities is limited and we are not certain that we will be able to identify candidates that we and our shareholders consider suitable or complete transactions on terms that are acceptable to us and our shareholders. In order to pursue such opportunities, we may require significant additional financing, which may not be available to us on favorable terms, if at all. Even if we are able to successfully identify

and complete acquisitions, we may not be able to integrate them or take full advantage of them and therefore may not realize the benefits that we expect. If we are unsuccessful in our external growth program, we may not be able to grow our business significantly and we may incur asset impairment or restructuring charges as a result of unsuccessful transactions.

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If we fail to comply with the extensive legal and regulatory requirements affecting the health care industry, we could face increased costs, penalties and a loss of business.

Our activities, and the activities of our collaborators and third party providers, are subject to extensive government regulation and oversight both in the U.S. and in foreign jurisdictions. The FDA and comparable agencies in other jurisdictions directly regulate many of our most critical business activities, including the conduct of preclinical and clinical studies, product manufacturing, advertising and promotion, product distribution, adverse event reporting and product risk management. Our interactions in the U.S. or abroad with physicians and other health care providers that prescribe or purchase our products are also subject to government regulation designed to prevent fraud and abuse in the sale and use of the products. In the U.S., states increasingly have been placing greater restrictions on the marketing practices of health care companies. In addition, pharmaceutical and biotechnology companies have been the target of lawsuits and investigations alleging violations of government regulation, including claims asserting submission of incorrect pricing information, impermissible off-label promotion of pharmaceutical products, payments intended to influence the referral of federal or state health care business, submission of false claims for government reimbursement, antitrust violations, or violations related to environmental matters. Violations of governmental regulation may be punishable by criminal and civil sanctions against us, including fines and civil monetary penalties and exclusion from participation in government programs, including Medicare and Medicaid, as well as against executives overseeing our business. In addition to penalties for violation of laws and regulations, we could be required to repay amounts we received from government payors, or pay additional rebates and interest if we are found to have miscalculated the pricing information we have submitted to the government. Whether or not we have complied with the law, an investigation into alleged unlawful conduct could increase our expenses, damage our reputation, divert management time and attention and adversely affect our business. Recent changes in U.S. fraud and abuse laws have strengthened government regulation, increased the investigative powers of government enforcement agencies, and enhanced penalties for non-compliance.

If we fail to meet the stringent requirements of governmental regulation in the manufacture of our products, we could incur substantial costs and a reduction in sales.

We and our third party providers are generally required to maintain compliance with current Good Manufacturing Practice and are subject to inspections by the FDA and comparable agencies in other jurisdictions to confirm such compliance. In addition, the FDA must approve any significant changes to our suppliers or manufacturing methods. If we or our third party service providers cannot demonstrate ongoing current Good Manufacturing Practice compliance, we may be required to withdraw or recall product, interrupt commercial supply of our products, undertake costly remediation efforts or seek more costly manufacturing alternatives. Any delay, interruption or other issues that arise in the manufacture, fill-finish, packaging, or storage of our products as a result of a failure of our facilities or the facilities or operations of third parties to pass any regulatory agency inspection could significantly impair our ability to develop and commercialize our products. Significant noncompliance could also result in the imposition of monetary penalties or other civil or criminal sanctions. This non-compliance could increase our costs, cause us to lose revenue or market share and damage our reputation.

Our investments in properties, including our manufacturing facilities, may not be fully realizable.

We own or lease real estate primarily consisting of buildings that contain research laboratories, office space, and biologic manufacturing operations, some of which are located in markets that are experiencing high vacancy rates and decreasing property values. If we decide to consolidate or co-locate certain aspects of our business operations, for
5,513

(Gain) loss on revaluation of contingent consideration
(202

)

(1,174
)

2,184

Goodwill impairment loss (see Note 1)
—

75,241

—

Operating loss
(38,961
)

(115,110
)

(3,118
)
Interest expense, net
30,875

21,487

12,667

Write-off of deferred loan costs
—

1,244

—

Loss (gain) on convertible debt embedded derivative (see Note 10)
24,783

(818
)

—

Other (income) expense, net
(410
)

510

(127
)
Loss from continuing operations before income taxes
(94,209
)

(137,533
)

(15,658
)
Less: Benefit for income taxes (see Note 9)
(31,063
)

(53,078
)

(3,093
)
Loss from continuing operations
(63,146
)

(84,455
)

(12,565
)
Loss from discontinued operations, net of income tax
—

—

(111
)
Net loss
$
(63,146
)

$
(84,455
)

$
(12,676
)

Basic loss per common share:

Continuing operations
$
(2.10
)

$
(2.83
)

$
(0.45
)
Discontinued operations
—

—

—

Net loss
$
(2.10
)

$
(2.83
)

$
(0.45

)

Diluted loss per common share:

Continuing operations
$
(2.10
)

$
(2.83
)

$
(0.45
)
Discontinued operations
—

—

—

Net loss
$
(2.10
)

$
(2.83
)

$
(0.45
)

See accompanying notes to consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Twelve Months Ended December 31,		
	2018	2017	2016
Net loss	$(63,146)	$(84,455)	$(12,676)
Other comprehensive income (loss) before tax:			
Foreign currency translation adjustment	(9,241)	10,607	(3,849)
Foreign currency hedge	658	(1,802)	481
Defined benefit pension plans:			
Net actuarial gain (loss) arising during period	109	3,226	(10,518)
Prior service cost arising during period	(669)	—	—
Amortization of net actuarial (gain) loss	(78)	71	—
Other comprehensive income (loss), before tax	(9,221)	12,102	(13,886)
Tax (provision) benefit attributable to other comprehensive income (loss)	(3,045)	(2,898)	3,260
Other comprehensive income (loss), net of tax	(12,266)	9,204	(10,626)
Total comprehensive loss	$(75,412)	$(75,251)	$(23,302)

See accompanying notes to consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Common Shares	Treasury Shares	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at January 1, 2016	21,837	(547)	$6,552	$(21,138)	$120,126	$250,980	$ (18,374)	$338,146
Net loss	—	—	—	—	—	(12,676)	—	(12,676)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(2,498)	(2,498)
Foreign currency hedge, net of tax	—	—	—	—	—	—	300	300
Defined benefit pension plans, net of tax	—	—	—	—	—	—	(8,428)	(8,428)
Non-cash compensation	—	—	—	—	7,313	—	—	7,313
Vesting of stock awards	142	—	40	—	(1,749)	—	—	(1,709)
Tax effect of share-based payment arrangements	—	—	—	—	(535)	—	—	(535)
Issuance of common stock in Furmanite acquisition and conversion of Furmanite share-based awards	8,208	—	2,462	—	209,068	—	—	211,530
Exercise of stock options	251	—	75	—	5,828	—	—	5,903
Issuance of common stock	168	—	50	—	5,884	—	—	5,934
Purchase of treasury stock	—	(274)	—	(7,593)	—	—	—	(7,593)
Retirement of treasury stock	(821)	821	(245)	28,731	(9,129)	(19,357)	—	—
Other		—	—	—	(50)	—	—	(50)
Balance at December 31, 2016	29,785	—	8,934	—	336,756	218,947	(29,000)	535,637
Adoption of new accounting principle	—	—	—	—	—	994	—	994
Net loss	—	—	—	—	—	(84,455)	—	(84,455)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	7,688	7,688
Foreign currency hedge, net of tax	—	—	—	—	—	—	(1,114)	(1,114)
Defined benefit pension plans, net of tax	—	—	—	—	—	—	2,630	2,630
Issuance of convertible debt, net of tax	—	—	—	—	8,415	—	—	8,415
Non-cash compensation	—	—	—	—	7,876	—	—	7,876
Vesting of stock awards	152	—	45	—	(992)	—	—	(947)
Exercise of stock options	16	—	5	—	445	—	—	450
Balance at December 31, 2017	29,953	—	8,984	—	352,500	135,486	(19,796)	477,174
Adoption of new accounting principles	—	—	—	—	—	9,110	(2,330)	6,780

Net loss	—	—	—	—	—	(63,146)	—	(63,146)
Foreign currency translation adjustment, net of tax	—	—	—	—	—	—	(12,164)	(12,164)
Foreign currency hedge, net of tax	—	—	—	—	—	—	496	496
Defined benefit pension plans, net of tax	—	—	—	—	—	—	(598)	(598)
Reclassification of convertible debt embedded derivative, net of tax	—	—	—	—	37,698	—	—	37,698
Non-cash compensation	—	—	—	—	12,256	—	—	12,256
Vesting of stock awards	231	—	69	—	(1,465)	—	—	(1,396)
Balance at December 31, 2018	30,184	—	$9,053	$—	$400,989	$81,450	$ (34,392)	$457,100

See accompanying notes to consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Twelve Months Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net loss	$(63,146)	$(84,455)	$(12,676)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	64,862	52,143	48,673
Write-off of deferred loan costs	—	1,244	—
Amortization of deferred loan costs and debt discount	7,022	3,085	541
Provision for doubtful accounts	11,662	7,097	6,336
Foreign currency loss (gain)	1,712	499	(93)
Deferred income taxes	(31,734)	(66,246)	(4,236)
(Gain) loss on revaluation of contingent consideration	(202)	(1,174)	2,184
(Gain) loss on asset disposal	(552)	553	1,540
Loss (gain) on convertible debt embedded derivative	24,783	(818)	—
Goodwill impairment loss	—	75,241	—
Non-cash compensation cost	12,256	7,876	7,313
Other, net	(3,762)	(3,789)	(1,182)
(Increase) decrease (net of the effects of acquisitions):			
Receivables	15,386	(39,820)	16,518
Inventory	(21)	614	2,119
Prepaid expenses and other current assets	6,933	6,642	(163)
Increase (decrease) (net of the effects of acquisitions):			
Accounts payable	(8,994)	6,424	8,361
Other accrued liabilities	9,168	14,896	(2,346)
Income taxes	(3,514)	6,260	6,675
Net cash provided by (used) in operating activities	41,859	(13,728)	79,564
Cash flows from investing activities:			
Capital expenditures	(27,164)	(36,798)	(45,812)
Net proceeds from sale of discontinued operations	—	—	13,295
Business acquisitions, net of cash acquired	—	—	(48,382)
Proceeds from disposal of assets	2,580	3,259	4,232
Other	(443)	(457)	827
Net cash used in investing activities	(25,027)	(33,996)	(75,840)
Cash flows from financing activities:			
Net (payments) borrowings under revolving credit agreement	(19,690)	(23,006)	15,996
Payments under term loan	—	(170,000)	(20,000)
Issuance of convertible debt, net of issuance costs	—	222,311	—
Deferred consideration payments	—	—	(694)
Contingent consideration payments	(1,106)	(1,278)	(1,816)
Purchase of treasury stock	—	—	(7,593)
Debt issuance costs on Credit Facility	(855)	(1,938)	(801)
Corporate tax effect from share-based payment arrangements	—	—	(535)
Exercise of stock options	—	450	5,903
Issuance of common stock, net of issuance costs	—	—	5,243

Payments related to withholding tax for share-based payment arrangements	(1,390)	(947)	(1,709)
Net cash (used in) provided by financing activities	(23,041)	25,592	(6,006)
Effect of exchange rate changes on cash	(2,055)	2,468	(1,327)
Net decrease in cash and cash equivalents	(8,264)	(19,664)	(3,609)
Cash and cash equivalents at beginning of period	26,552	46,216	49,825
Cash and cash equivalents at end of period	$18,288	$26,552	$46,216
Supplemental disclosure of cash flow information:			
Cash paid (refunded) during the year for:			
Interest	$24,924	$13,176	$12,207
Income taxes	$2,720	$5,719	$(2,741)

See accompanying notes to consolidated financial statements.

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TEAM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Description of Business. Unless otherwise indicated, the terms “Team, Inc.,” “Team,” “the Company,” “we,” “our” and “us” ar used in this report to refer to Team, Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We are a leading provider of standard to specialty industrial services, including inspection, engineering assessment and mechanical repair and remediation required in maintaining high temperature and high pressure piping systems and vessels that are utilized extensively in the refining, petrochemical, power, pipeline and other heavy industries. We conduct operations in three segments: Inspection and Heat Treating Group (“IHT”) (formerly TeamQualspec), Mechanical Services Group (“MS”) (formerly TeamFurmanite) and Quest Integrity Group (“Quest Integrity”). Through the capabilities and resources in these three segments, we believe that Team is uniquely qualified to provide integrated solutions involving in their most basic form, inspection to assess condition, engineering assessment to determine fitness for purpose in the context of industry standards and regulatory codes and mechanical services to repair, rerate or replace based upon the client’s election. In addition, our Company is capable of escalating with the client’s needs—as dictated by the severity of the damage found and the related operating conditions—from standard services to some of the most advanced services and integrated integrity management and asset reliability solutions available in the industry. We also believe that Team is unique in its ability to provide services in three distinct client demand profiles: (i) turnaround or project services, (ii) call-out services and (iii) nested or run-and-maintain services.

IHT provides standard and advanced non-destructive testing (“NDT”) services for the process, pipeline and power sectors, pipeline integrity management services, field heat treating services, as well as associated engineering and assessment services. These services can be offered while facilities are running (on-stream), during facility turnarounds or during new construction or expansion activities.

MS provides primarily call-out and turnaround services under both on-stream and off-line/shut down circumstances. Turnaround services are project-related and demand is a function of the number and scope of scheduled and unscheduled facility turnarounds as well as new industrial facility construction or expansion activities. The turnaround and call-out services MS provides include field machining, technical bolting, field valve repair and isolation test plugging services. On-stream services offered by MS represent the services offered while plants are operating and under pressure. These services include leak repair, fugitive emissions control and hot tapping.

Quest Integrity provides integrity and reliability management solutions for the process, pipeline and power sectors. These solutions encompass three broadly-defined disciplines: (1) highly specialized in-line inspection services for unpiggable process piping and pipelines using proprietary in-line inspection tools and analytical software; and (2) advanced engineering and condition assessment services through a multi-disciplined engineering team and (3) advanced digital imaging including remote digital video imaging, laser scanning and laser profilometry-enabled reformer care services.

We offer these services globally through over 200 locations in 20 countries throughout the world with approximately 7,200 employees. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, OEMs, distributors, and some of the world’s largest engineering and construction firms.

Our stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “TISI”.

Consolidation. The consolidated financial statements include the accounts of Team, Inc. and our majority-owned subsidiaries where we have control over operating and financial policies. Investments in affiliates in which we have the ability to exert significant influence over operating and financial policies, but where we do not control the operating and financial policies, are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates. Our accounting policies conform to Generally Accepted Accounting Principles in the United States (“GAAP”). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and judgments that affect our reported financial position and results of operations. We review significant estimates and judgments affecting our consolidated financial statements on a recurring basis and record the

effect of any necessary adjustments prior to their publication. Estimates and judgments are based on information available at the time such estimates and judgments are made. Adjustments made with respect to the use of these estimates and judgments often relate to information not previously available. Uncertainties with respect to such estimates and judgments are inherent in the preparation of financial statements. Estimates and judgments are used in, among other things, (1) aspects of revenue recognition, (2) valuation of acquisition related tangible and intangible assets and assessments of all long-lived assets for possible impairment, (3) estimating various factors used to accrue liabilities for workers' compensation, auto, medical and general liability, (4) establishing an allowance for uncollectible accounts receivable, (5) estimating the useful lives of our assets, (6) assessing future tax exposure and the realization of tax assets, (7) the

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valuation of the embedded derivative liability in our convertible debt and (8) selecting assumptions used in the measurement of costs and liabilities associated with defined benefit pension plans. Our most significant accounting policies are described below.

Fair value of financial instruments. Our financial instruments consist primarily of cash, cash equivalents, accounts receivable, accounts payable and debt obligations. The carrying amount of cash, cash equivalents, trade accounts receivable and trade accounts payable are representative of their respective fair values due to the short-term maturity of these instruments. The fair value of our banking facility is representative of the carrying value based upon the variable terms and management's opinion that the current rates available to us with the same maturity and security structure are equivalent to that of the banking facility. The fair value of our convertible senior notes as of December 31, 2018 and 2017 was $231.5 million and $231.6 million, respectively, (inclusive of the fair value of the conversion option) and are a "Level 2" (as defined in Note 11) measurements, determined based on the observed trading price of these instruments.

Cash and cash equivalents. Cash and cash equivalents consist of all demand deposits and funds invested in highly liquid short-term investments with original maturities of three months or less.

Inventory. Except for certain inventories that are valued based on weighted-average cost, we use the first-in, first-out method to value our inventory. Inventory includes material, labor and certain fixed overhead costs. Inventory is stated at the lower of cost and net realizable value. Inventory quantities on hand are reviewed periodically and carrying cost is reduced to net realizable value for inventories for which their cost exceeds their utility. The cost of inventories consumed or products sold are included in operating expenses.

Property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Leasehold improvements are amortized over the shorter of their respective useful life or the lease term. Depreciation and amortization of assets are computed by the straight-line method over the following estimated useful lives of the assets:

Classification	Useful Life
Buildings	20-40 years
Enterprise Resource Planning ("ERP") System	15 years
Leasehold improvements	2-15 years
Machinery and equipment	2-12 years
Furniture and fixtures	2-10 years
Computers and computer software	2-5 years
Automobiles	2-5 years

Goodwill and intangible assets. We allocate the purchase price of acquired businesses to their identifiable tangible assets and liabilities, such as accounts receivable, inventory, property, plant and equipment, accounts payable and accrued liabilities. We also allocate a portion of the purchase price to identifiable intangible assets, such as non-compete agreements, trademarks, trade names, patents, technology and customer relationships. Allocations are based on estimated fair values of assets and liabilities. We use all available information to estimate fair values including quoted market prices, the carrying value of acquired assets, and widely accepted valuation techniques such as discounted cash flows. Certain estimates and judgments are required in the application of the fair value techniques, including estimates of future cash flows, selling prices, replacement costs, economic lives and the selection of a discount rate, as well as the use of "Level 3" measurements as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820 Fair Value Measurements and Disclosure ("ASC 820"). Deferred taxes are recorded for any differences between the assigned values and tax bases of assets and liabilities. Estimated deferred taxes are based on available information concerning the tax bases of assets acquired and liabilities assumed and loss carryforwards at the acquisition date, although such estimates may change in the future as additional information becomes known. Any remaining excess of cost over allocated fair values is recorded as goodwill. We typically engage third-party valuation experts to assist in determining the fair values for both the identifiable tangible and intangible assets. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, could materially impact our results of operations.

Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but are instead tested for impairment at least annually in accordance with the provisions of the ASC 350 Intangibles—Goodwill and Other ("ASC 350"). Intangible assets with estimated useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with ASC 350. We assess goodwill for

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impairment at the reporting unit level, which we have determined to be the same as our operating segments. Each reporting unit has goodwill relating to past acquisitions.

Prior to January 1, 2017, the test for impairment was a two-step process that involved comparing the estimated fair value of each reporting unit to the reporting unit's carrying value, including goodwill. If the fair value of a reporting unit exceeded its carrying amount, the goodwill of the reporting unit was not considered impaired; therefore, the second step of the impairment test would not be deemed necessary. If the carrying amount of the reporting unit exceeded its fair value, we would then perform the second step to the goodwill impairment test, which involved the determination of the fair value of a reporting unit's assets and liabilities as if those assets and liabilities had been acquired/assumed in a business combination at the impairment testing date, to measure the amount of goodwill impairment loss to be recorded. However, effective January 1, 2017 we prospectively adopted a new accounting principle that eliminated the second step of the goodwill impairment test. Therefore, for goodwill impairment tests occurring after January 1, 2017, if the carrying value of a reporting unit exceeds its fair value, we measure any goodwill impairment losses as the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Our goodwill annual test date is December 1 of each year.

In the third quarter of the year ended December 31, 2017, we determined that there were sufficient indicators to trigger an interim goodwill impairment analysis, primarily due to a 43% decrease in the Company's stock price during the quarter, market softness and our financial results. This interim goodwill impairment test was prepared as of July 31, 2017. The fair values of the reporting units were determined using a combination of income and market approaches. The income approach was based on discounted cash flow models with estimated cash flows based on internal forecasts of revenue and expenses over a five-year period plus a terminal value period. The income approach estimated fair value by discounting each reporting unit's estimated future cash flows using a discount rate that approximated our weighted-average cost of capital. Major assumptions applied in an income approach include forecasted growth rates as well as forecasted profitability by reporting unit. Additionally, we considered two market approaches that used multiples, based on observable market data, of a combination of historical and projected financial metrics of our reporting units, to arrive at fair value. We applied weightings to each of the income and the two market approaches. The fair value derived from these approaches, in the aggregate, approximated our market capitalization.

The July 31, 2017 interim goodwill impairment test indicated impairment as the carrying values of the MS and IHT reporting units exceeded their fair values. The carrying value of the MS reporting unit exceeded its fair value by $54.1 million and the carrying value of the IHT reporting unit exceeded its fair value by $21.1 million, resulting in a total impairment loss of $75.2 million. The fair values of the reporting units are "Level 3" measurements as defined in Note 11. The fair value of the Quest Integrity reporting unit significantly exceeded its carrying value.

For our annual goodwill impairment tests as of December 1, 2017 and December 1, 2018, we elected to perform qualitative assessments to determine if it was more likely than not (that is, a likelihood of more than 50 percent) that the fair values of our reporting units were less than their respective carrying values as of the test dates. Our qualitative assessment for the December 1, 2017 test considered relevant events and circumstances occurring since the July 31, 2017 quantitative impairment test date that could affect the fair value or carrying amount of the reporting units, while our qualitative assessment for the December 1, 2018 test considered relevant events and circumstances occurring since the December 1, 2017 qualitative impairment test date. Specifically, we considered changes in the Company's stock price, industry and market conditions, our internal forecasts of future revenue and expenses, any significant events affecting the Company and actual changes in the carrying value of our net assets. After considering all positive and negative evidence for the assessments as of both of these dates, we concluded that it was not more likely than not that our carrying values exceeded fair values and, as such, no additional impairment was indicated.

There was $281.7 million and $284.8 million of goodwill at December 31, 2018 and 2017, respectively. A summary of goodwill is as follows (in thousands):

	Twelve Months Ended December 31, 2018

	IHT	MS	Quest Integrity	Total
Balance at beginning of period	$194,211	$56,600	$ 33,993	$284,804
Foreign currency adjustments	(1,603)	(712)	(578)	(2,893)
Disposal	—	(261)	—	(261)
Balance at end of period	$192,608	$55,627	$ 33,415	$281,650

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	Twelve Months Ended December 31, 2017			
	IHT	MS	Quest Integrity	Total
Balance at beginning of year	$213,475	$109,059	$ 33,252	$355,786
Foreign currency adjustments	1,876	1,642	741	4,259
Impairment loss	(21,140)	(54,101)	—	(75,241)
Balance at end of year	$194,211	$56,600	$ 33,993	$284,804

There was $75.2 million of accumulated impairment losses at December 31, 2018 and 2017, comprised of the impairment losses recognized in the third quarter of 2017 described above.

Income taxes. We follow the guidance of ASC 740 Income Taxes ("ASC 740"), which requires that we use the asset and liability method of accounting for deferred income taxes and provide deferred income taxes for all significant temporary differences. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax payable and related tax expense together with assessing temporary differences resulting from differing treatment of certain items, such as depreciation, for tax and accounting purposes. These differences can result in deferred tax assets and liabilities, which are included within our consolidated balance sheets.

In accordance with ASC 740, we are required to assess the likelihood that our deferred tax assets will be realized and, to the extent we believe that it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax assets will not be realized, we must establish a valuation allowance. We consider all available evidence to determine whether, based on the weight of the evidence, a valuation allowance is needed. Evidence used includes the reversal of existing taxable temporary differences, taxable income in prior carryback years if carryback is permitted by tax law, information about our current financial position and our results of operations for the current and preceding years, as well as all currently available information about future years, including our anticipated future performance and tax planning strategies.

We regularly assess whether it is more likely than not that we will realize the deferred tax assets in the jurisdictions we operate in. Management believes future sources of taxable income, reversing temporary differences and other tax planning strategies will be sufficient to realize the deferred tax assets for which no valuation allowance has been established. Our valuation allowances primarily relate to net operating loss carry forwards. While we have considered these factors in assessing the need for additional valuation allowances, there is no assurance that additional valuation allowances would not need to be established in the future if information about future years change. Any changes in valuation allowances would impact our income tax provision and net income (loss) in the period in which such a determination is made. As of December 31, 2018, our deferred tax assets were $73.7 million, less a valuation allowance of $10.5 million. As of December 31, 2018, our deferred tax liabilities were $61.6 million.

Significant judgment is required in assessing the timing and amounts of deductible and taxable items for tax purposes. In accordance with ASC 740-10, we establish reserves for uncertain tax positions when, despite our belief that our tax return positions are supportable, we believe that it is not more likely than not that the position will be sustained upon challenge. When facts and circumstances change, we adjust these reserves through our provision for income taxes. To the extent interest and penalties may be assessed by taxing authorities on any related underpayment of income tax, such amounts have been accrued and are classified as a component of income tax provision (benefit) in our consolidated statements of operations. As of December 31, 2018, our unrecognized tax benefits related to uncertain tax positions were $2.2 million.

The 2017 Tax Cuts and Jobs Act (the "2017 Tax Act") was enacted on December 22, 2017 and represented a significant change to the U.S. corporate income tax system including: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; creation of new minimum taxes such as the base erosion anti-abuse tax ("BEAT") and Global Intangible Low Taxed Income ("GILTI") tax; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system, which has resulted in a one-time U.S. tax liability on those earnings that have not previously been repatriated to the U.S.

Due to the complexities involved in accounting for the 2017 Tax Act, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (“SAB 118”), which required companies include in their financial statements estimates of the impacts of the 2017 Tax Act to the extent such estimates have been determined. Under SAB 118, companies were allowed a measurement period of up to one year after the enactment date of the 2017 Tax Act to finalize the recording of the related tax impacts. Accordingly, the Company previously recorded certain estimates of the tax impact in its consolidated statement of operations for the fourth quarter of 2017. During the year ended December 31, 2018, the Company finalized the recording of the

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impacts of the 2017 Tax Act and recorded an income tax benefit of $1.8 million, reflecting an adjustment to the provisional estimate of the deemed repatriation transition tax. As a result of the final calculation of the transition tax liability, the Company also recorded an adjustment to the deferred tax liability associated with investments in foreign subsidiaries.

Workers' compensation, auto, medical and general liability accruals. In accordance with ASC 450 Contingencies ("ASC 450"), we record a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We review our loss contingencies on an ongoing basis to ensure that we have appropriate reserves recorded on our balance sheet. These reserves are based on historical experience with claims incurred but not received, estimates and judgments made by management, applicable insurance coverage for litigation matters, and are adjusted as circumstances warrant. For workers' compensation, our self-insured retention is $1.0 million and our automobile liability self-insured retention is currently $500,000 per occurrence. For general liability claims, we have an effective self-insured retention of $3.0 million per occurrence. For medical claims, our self-insured retention is $350,000 per individual claimant determined on an annual basis. For environmental liability claims, our self-insured retention is $1.0 million per occurrence. We maintain insurance for claims that exceed such self-retention limits. The insurance is subject to terms, conditions, limitations and exclusions that may not fully compensate us for all losses. Our estimates and judgments could change based on new information, changes in laws or regulations, changes in management's plans or intentions, or the outcome of legal proceedings, settlements or other factors. If different estimates and judgments were applied with respect to these matters, it is likely that reserves would be recorded for different amounts.

Allowance for doubtful accounts. In the ordinary course of business, a portion of our accounts receivable are not collected due to billing disputes, customer bankruptcies, dissatisfaction with the services we performed and other various reasons. We establish an allowance to account for those accounts receivable that we estimate will eventually be deemed uncollectible. The allowance for doubtful accounts is based on a combination of our historical experience and management's review of long outstanding accounts receivable.

Concentration of credit risk. No single customer accounts for more than 10% of consolidated revenues.

Earnings (loss) per share. Basic earnings (loss) per share is computed by dividing income (loss) from continuing operations, income (loss) from discontinued operations or net income (loss) by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings (loss) per share is computed by dividing income (loss) from continuing operations, income (loss) from discontinued operations or net income (loss) by the sum of (1) the weighted-average number of shares of common stock outstanding during the period, (2) the dilutive effect of the assumed exercise of share-based compensation using the treasury stock method and (3) the dilutive effect of the assumed conversion of our convertible senior notes under the treasury stock method. The Company's intent is to settle the principal amount of the convertible senior notes in cash upon conversion. If the conversion value exceeds the principal amount, the Company may elect to deliver shares of its common stock with respect to the remainder of its conversion obligation in excess of the aggregate principal amount (the "conversion spread"). Accordingly, the conversion spread is included in the denominator for the computation of diluted earnings per common share using the treasury stock method and the numerator is adjusted for any recorded gain or loss, net of tax, on the embedded derivative associated with the conversion feature.

Amounts used in basic and diluted loss per share, for all periods presented, are as follows (in thousands):

	Twelve Months Ended December 31,		
	2018	2017	2016
Weighted-average number of basic shares outstanding	30,031	29,849	28,095
Stock options, stock units and performance awards	—	—	—
Convertible senior notes	—	—	—
Total shares and dilutive securities	30,031	29,849	28,095

For the years ended December 31, 2018, 2017 and 2016, all outstanding share-based compensation awards were excluded from the calculation of diluted loss per share because their inclusion would be antidilutive due to the loss from continuing operations in those periods. Also, for the years ended December 31, 2017 and 2018, the effect of our

convertible senior notes was excluded from the calculation of diluted earnings (loss) per share since the conversion price exceeded the average price of our common stock during the applicable periods. For information on our convertible senior notes and our share-based compensation awards, refer to Note 10 and Note 12, respectively.

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Non-cash investing and financing activities. Non-cash investing and financing activities are excluded from the consolidated statements of cash flows and are as follows (in thousands):

	Twelve Months Ended December 31,		
	2018	2017	2016
Property acquired under capital lease	$5,302	$ —	$—
Note received as consideration in disposal of discontinued operations	$—	$ —	$1,511
Issuance of common stock - Furmanite acquisition	$—	$ —	$209,529

Also, we had $1.4 million, $2.6 million, and $2.3 million of accrued capital expenditures as of December 31, 2018, 2017 and 2016, respectively, which are excluded from the consolidated statements of cash flows until paid.

Foreign currency. For subsidiaries whose functional currency is not the U.S. Dollar, assets and liabilities are translated at period ending rates of exchange and revenues and expenses are translated at period average exchange rates. Translation adjustments for the asset and liability accounts are included as a separate component of accumulated other comprehensive loss in stockholders' equity. Foreign currency transaction gains and losses are included in our statements of operations.

We utilize monthly foreign currency swap contracts to reduce exposures to changes in foreign currency exchange rates including, but not limited to, the Australian Dollar, Canadian Dollar, Brazilian Real, British Pound, Euro, Malaysian Ringgit and Mexican Peso. The impact from these swap contracts was not material as of December 31, 2018 or 2017 or for the years ended December 31, 2018, 2017 and 2016.

Defined benefit pension plans. Pension benefit costs and liabilities are dependent on assumptions used in calculating such amounts. The primary assumptions include factors such as discount rates, expected investment return on plan assets, mortality rates and retirement rates. These rates are reviewed annually and adjusted to reflect current conditions. These rates are determined based on reference to yields. The expected return on plan assets is derived from detailed periodic studies, which include a review of asset allocation strategies, anticipated future long-term performance of individual asset classes, risks (standard deviations) and correlations of returns among the asset classes that comprise the plans' asset mix. While the studies give appropriate consideration to recent plan performance and historical returns, the assumptions are primarily long-term, prospective rates of return. Mortality and retirement rates are based on actual and anticipated plan experience. In accordance with GAAP, actual results that differ from the assumptions are accumulated and are subject to amortization over future periods and, therefore, generally affect recognized expense in future periods. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the pension obligation and future expense.

Revision to prior period consolidated financial statements. In connection with the preparation of the Company's 2018 consolidated financial statements, the Company identified errors in its previously issued 2017 consolidated financial statements. These prior period errors are related to the measurement of valuation allowances on deferred tax assets. The prior period consolidated financial statements and other affected prior period financial information have been revised to correct these errors. The effect of correcting the errors increased our income tax benefit and favorably impacted our net loss by $19.7 million in the twelve months ended December 31, 2017. The correction also resulted in an increase of $19.7 million to previously reported stockholders' equity as of December 31, 2017. Based on an analysis of quantitative and qualitative factors, the Company determined the related impacts were not material to its previously filed annual or interim consolidated financial statements, and therefore, amendments of previously filed reports are not required.

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The table below provides a summary of the financial statement line items which were impacted by these error corrections (in thousands, except per share data):

	December 31, 2017		
	As Previously Reported	Adjustments	As Revised
Effect on consolidated balance sheet			
Liabilities and Equity			
Deferred income taxes	$38,100	$ (19,706)	$18,394
Total Liabilities	$598,367	$ (19,706)	$578,661
Retained earnings	$115,780	$ 19,706	$135,486
Total equity	$457,468	$ 19,706	$477,174

	Twelve Months Ended December 31, 2017		
	As Previously Reported	Adjustments	As Revised
Effect on consolidated statement of operations			
Benefit for income taxes	$(33,372)	$ (19,706)	$(53,078)
Loss from continuing operations	$(104,161)	$ 19,706	$(84,455)
Net loss	$(104,161)	$ 19,706	$(84,455)
Basic loss per common share:			
Continuing operations	$(3.49)	0.66	$(2.83)
Net loss	$(3.49)	0.66	$(2.83)
Diluted loss per common share:			
Continuing operations	$(3.49)	0.66	$(2.83)
Net loss	$(3.49)	0.66	$(2.83)

Newly Adopted Accounting Principles

ASU No. 2014-09. In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which requires the Company to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 establishes ASC Topic 606, Revenue from Contracts with Customers. (“ASC 606”). We adopted ASC 606 effective January 1, 2018. ASC 606 replaces most of the previous revenue recognition guidance under GAAP. Most of our contracts with customers are short-term in nature and billed on a time and materials basis, while certain other contracts are at a fixed price. For these fixed price contracts, ASC 606 generally results in the recognition of revenue as the services are provided compared to recognition of revenue at the time of completion of those contracts, under previous guidance. The adoption of ASC 606 has not resulted in significant changes to the overall pattern or timing of our revenue recognition.

To account for the cumulative effect of initially applying ASC 606 as of January 1, 2018, we recognized a pre-tax increase to the opening balance of retained earnings of $8.8 million, pursuant to the modified retrospective transition method, for certain fixed-price contracts that were not yet completed as of the date of adoption. The cumulative effect of adoption resulted in a net increase to prepaid expenses and other current assets of $8.5 million, a reduction to inventory of $0.4 million and a reduction to other accrued liabilities of $0.7 million. Also, we recorded the related tax impacts as of January 1, 2018, which resulted in a net reduction to the opening balance of retained earnings of $2.0 million and a corresponding increase to deferred tax liabilities. Because we have applied the modified retrospective transition method of adoption, comparative periods prior to January 1, 2018 were not retrospectively adjusted to

reflect adoption of ASU 2014-09 and are presented in accordance with our historical accounting.

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The effect of ASC 606 on our consolidated balance sheet as of December 31, 2018 and our consolidated statements of operations for the twelve months ended December 31, 2018 were as follows (in thousands):

	December 31, 2018		
	Without adoption of ASC 606	Adjustments to apply ASC 606	As reported
Effect on consolidated balance sheet			
Assets			
Prepaid expenses and other current assets	$16,321	$ 3,124	$19,445
Liabilities and Equity			
Deferred income taxes	$5,494	$ 612	$6,106
Retained earnings	$78,938	$ 2,512	$81,450

	Twelve Months Ended December 31, 2018		
	Without adoption of ASC 606	Adjustments to apply ASC 606	As reported
Effect on consolidated statement of operations			
Revenues	$1,251,694	$ (4,765)	$1,246,929
Operating expenses	$917,768	$ 905	$918,673
Benefit for income taxes	$(29,660)	$ (1,403)	$(31,063)
Net loss	$(58,879)	$ (4,267)	$(63,146)

Refer to Note 2 for additional disclosures required by ASC 606.

ASU No. 2016-15. In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which clarifies the classification in the statement of cash flows of certain items, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds and cash receipts and payments having aspects of more than one class of cash flows. The adoption of this ASU on January 1, 2018 had no impact on our consolidated statements of cash flows.

ASU No. 2016-16. In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”), which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. Adoption of ASU 2016-16 on January 1, 2018 did not have a material impact on our consolidated financial statements.

ASU No. 2016-18. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force) (“ASU 2016-18”), which states that inflows and outflows of restricted cash and cash equivalents must be included in the statement of cash flows as cash inflows and outflows and must be included in cash and cash equivalents. We adopted of ASU 2016-18 on January 1, 2018 on a retrospective basis. As a result of adoption, the consolidated statement of cash flows for the twelve months ended December 31, 2016 was retrospectively adjusted to reflect restricted cash as part of cash and cash equivalents. The adjustment resulted in a $5.0 million increase to beginning cash and cash equivalents at January 1, 2016 and a $5.0 million decrease to cash flows from investing activities for the twelve months ended December 31, 2016, compared to amounts originally reported. The adoption of ASU 2016-18 had no impact to the consolidated statements of cash flows for the twelve months ended December 31, 2018 and 2017.

ASU No. 2017-07. In March 2017, the FASB issued ASU No. 2017-07, Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07”), which prescribes where in the statement of operations the components of net periodic pension cost and net

periodic postretirement benefit cost should be reported. Under ASU 2017-07, the service cost component is required to be reported in the same line or line items that other compensation costs of the associated employees are reported, while the other components are reported outside of operating income (loss), in the "Other expense, net" line item of our consolidated statements of operations. Adoption of ASU 2017-07 on January 1, 2018 did not have a material impact on our consolidated statements of operations.

ASU No. 2017-09. In May 2017, the FASB issued ASU No. 2017-09, Compensation–Stock Compensation: Scope of Modification Accounting ("ASU 2017-09"), which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity apply modification accounting in Topic 718. Under ASU 2017-09, modification accounting

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is required unless the effect of the modification does not impact the award's fair value, vesting conditions and its classification as an equity instrument or liability instrument. Our adoption of ASU 2017-09 on January 1, 2018 on a prospective basis did not have any impact on our share-based compensation expense.

ASU No. 2017-12. In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedge Activities ("ASU 2017-12"). This update makes certain targeted improvements to the accounting and presentation of certain hedging relationships. For net investment hedges, ASU 2017-12 requires that the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness be recorded in the currency translation adjustment section of other comprehensive income (loss). In the third quarter of 2018, we elected to early adopt ASU 2017-12, with application as of January 1, 2018. Adoption of ASU 2017-12 did not have any impact on our consolidated financial statements.

ASU No. 2018-02. In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). ASU 2018-02 introduces the option to reclassify from accumulated other comprehensive income (loss) to retained earnings the "stranded" tax effects resulting from the 2017 Tax Act. Under GAAP, certain deferred tax assets or liabilities may originate through income tax activity recognized in other comprehensive income (loss). However, because the adjustment of deferred tax assets and liabilities due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate is required to be included in income (loss) from continuing operations, the tax effects of items within accumulated other comprehensive income (loss) are not adjusted to reflect the new tax rate, resulting in "stranded" tax effects. ASU 2018-02 provides an option to reclassify such tax effects from accumulated other comprehensive income (loss) to retained earnings. We early adopted ASU 2018-02 in the fourth quarter of 2018. The effect of adoption resulted in an increase to retained earnings of $2.3 million and an offsetting adjustment to accumulated other comprehensive loss.

ASU No. 2018-13. In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement, which removes, modifies and adds certain disclosure requirements for fair value measurements. Our early adoption of ASU 2018-13 in the third quarter of 2018 did not have any impact on our consolidated financial statements. Refer to Note 11 for our fair value disclosures.

ASU No. 2018-14. In August 2018, the FASB issued ASU No. 2018-14, Compensation — Retirement Benefits — Defined Benefit Plans — General (Subtopic 715-20): Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans ("ASU 2018-14"), which modifies the disclosure requirements for employers that sponsor defined benefit plans or other postretirement plans. Our early adoption of ASU 2018-14 on December 31, 2018 did not have a material impact on our disclosures. Refer to Note 13 for our employee benefit plans disclosures.

Accounting Principles Not Yet Adopted

Topic 842 - Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU 2016-02"), which establishes ASC Topic 842, Leases ("ASC 842"), replaced previous lease accounting guidance along with subsequent ASUs issued in 2018 to clarify certain provisions of ASU 2016-02. ASC 842 changes the accounting for leases, including a requirement to record leases with terms of greater than twelve months on the balance sheet as assets and liabilities. ASC 842 will also require us to expand our financial statement disclosures on leasing activities.

We will adopt Topic 842 effective January 1, 2019 and intend to elect the modified retrospective transition method, which specified the comparative financial information will not be restated and will continue to be reported under the lease standard in effect during those periods. We expect to elect the "package of practical expedients," which permits us not to reassess under the new standard our prior conclusions on lease identification, lease classification and initial direct costs. We also intend to elect the short-term lease recognition practical expedient in which leases with a term of 12 months or less will not be recognized on the balance sheet and the practical expedient to not separate lease and non-lease components for the majority of our leases. Based on our current assessment and estimates, we expect the adoption of ASC 842, as of January 1, 2019, to result in the recognition of operating lease right-of-use assets and additional net liabilities in the range of approximately $62 million to $72 million. The cumulative effect adjustment to retained earnings due to the adoption of ASC 842 is not expected to be material. We do not anticipate that the adoption of ASC 842 will result in any material impacts to our statements of operations or statements of cash flows.

ASU No. 2016-13. In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which amends GAAP by introducing a new impairment model for financial instruments that is based on expected credit losses rather than incurred credit losses. The new impairment model applies to most financial assets, including trade accounts receivable. ASU 2016-13 is effective for interim and annual

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reporting periods beginning after December 15, 2019 and requires a modified retrospective transition approach. We are currently evaluating the impact this ASU will have on our ongoing financial reporting.

2. REVENUE

As discussed in "Newly Adopted Accounting Principles—ASU No. 2014-09" in Note 1, on January 1, 2018, we adopted ASC 606 using the modified retrospective method, which was applied to those contracts that were not completed as of January 1, 2018.

In accordance with ASC 606, we follow a five-step process to recognize revenue: 1) identify the contract with the customer, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations and 5) recognize revenue when the performance obligations are satisfied.

Most of our contracts with customers are short-term in nature and billed on a time and materials basis, while certain other contracts are at a fixed price. Certain contracts may contain a combination of fixed and variable elements. We act as a principal and have performance obligations to provide the service itself or oversee the services provided by any subcontractors. Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties, such as taxes assessed by governmental authorities. Generally, in contracts where the amount of consideration is variable, the amount is determinable each period based on our right to invoice (as discussed further below) the customer for services performed to date. As most of our contracts contain only one performance obligation, the allocation of a contracts transaction price to multiple performance obligations is generally not applicable. Customers are generally billed as we satisfy our performance obligations and payment terms typically range from 30 to 90 days from the invoice date. Billings under certain fixed-price contracts may be based upon the achievement of specified milestones, while some arrangements may require advance customer payment. Our contracts do not include significant financing components since the contracts typically span less than one year. Contracts generally include an assurance type warranty clause to guarantee that the services comply with agreed specifications. The warranty period typically is 12 months or less from the date of service. Warranty expenses were not material for the twelve months ended December 31, 2018, 2017 and 2016.

Revenue is recognized as (or when) the performance obligations are satisfied by transferring control over a service or product to the customer. Revenue recognition guidance prescribes two recognition methods (over time or point in time). Most of our performance obligations qualify for recognition over time because we typically perform our services on customer facilities or assets and customers receive the benefits of our services as we perform. Where a performance obligation is satisfied over time, the related revenue is also recognized over time using the method deemed most appropriate to reflect the measure of progress and transfer of control. For our time and materials contracts, we are generally able to elect the right-to-invoice practical expedient, which permits us to recognize revenue in the amount to which we have a right to invoice the customer if that amount corresponds directly with the value to the customer of our performance completed to date. For our fixed price contracts, we typically recognize revenue using the cost-to-cost method, which measures the extent of progress towards completion based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Under this method, revenue is recognized proportionately as costs are incurred. For contracts where control is transferred at a point in time, revenue is recognized at the time control of the asset is transferred to the customer, which is typically upon delivery and acceptance by the customer.

Disaggregation of revenue. Essentially all of our revenues are associated with contracts with customers. A disaggregation of our revenue from contracts with customers by geographic region, by reportable operating segment and by service type is presented below (in thousands):

	Twelve Months Ended December 31, 2018		
	United States and Canada	Other Countries	Total
Revenue:			
IHT	$602,615	$14,763	$617,378
MS	383,405	148,960	532,365

Quest Integrity	62,262	34,924	97,186
Total	$1,048,282	$198,647	$1,246,929

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	Twelve Months Ended December 31, 2018					
	Asset Integrity Management	Repair and Maintenance Services	Heat Treating	Non-Destructive Evaluation	Other	Total
Revenue:						
IHT	$46,726	$ 27,420	$80,840	$ 447,080	$15,312	$617,378
MS	402	523,701	2,753	—	5,509	532,365
Quest Integrity	97,186	—	—	—	—	97,186
Total	$144,314	$ 551,121	$83,593	$ 447,080	$20,821	$1,246,929

For additional information on our reportable operating segments and geographic information, refer to Note 15.

Contract balances. The timing of revenue recognition, billings and cash collections results in trade accounts receivable, contract assets and contract liabilities on the consolidated balance sheets. Trade accounts receivable include billed and unbilled amounts currently due from customers and represent unconditional rights to receive consideration. The amounts due are stated at their net estimated realizable value. Refer to Notes 1 and 4 for additional information on our trade receivables and the allowance for doubtful accounts. Contract assets include unbilled amounts typically resulting from sales under fixed-price contracts when the cost-to-cost method of revenue recognition is utilized, the revenue recognized exceeds the amount billed to the customer and the right to payment is conditional on something other than the passage of time. Amounts may not exceed their net realizable value. If we receive advances or deposits from our customers, a contract liability is recorded. Additionally, a contract liability arises if items of variable consideration result in less revenue being recorded than what is billed. Contract assets and contract liabilities are generally classified as current.

The following table provides information about trade accounts receivable, contract assets and contract liabilities as of December 31, 2018 and January 1, 2018, the date of adoption of ASC 606, (in thousands):

	December 31, 2018	January 1, 2018
Trade accounts receivable, net[1]	$ 268,352	$301,963
Contract assets[2]	$ 5,745	$9,823
Contract liabilities[3]	$ 1,784	$5,415

1 Includes billed and unbilled amounts, net of allowance for doubtful accounts. See Note 4 for details.
2 Included in the “Prepaid expenses and other current assets” line on the consolidated balance sheet.
3 Included in the “Other accrued liabilities” line of the consolidated balance sheet.

The $4.1 million decrease in our contract assets from January 1, 2018 to December 31, 2018 is due to fewer fixed price contracts in progress at December 31, 2018 as compared to January 1, 2018, consistent with lower activity levels in the fourth quarter of 2018 compared to the same quarter in 2017. The $3.6 million decrease in contract liabilities is due to our completion of performance obligations during the year ended December 31, 2018 associated with contracts under which customers had paid for all or a portion of the consideration in advance of the work being performed. Due to the short-term nature of our contracts, contract liability balances as of the end of any period are generally recognized as revenue in the following quarter. Accordingly, essentially all of the contract liability balance at January 1, 2018 was recognized as revenue during the year ended December 31, 2018.

Contract costs. The Company recognizes the incremental costs of obtaining contracts as selling, general and administrative expenses when incurred if the amortization period of the asset that otherwise would have been recognized is one year or less. Assets recognized for costs to obtain a contract were not material as of December 31, 2018 or January 1, 2018. Costs to fulfill a contract are recorded as assets if they relate directly to a contract or a specific anticipated contract, the costs generate or enhance resources that will be used in satisfying performance obligations in the future and the costs are expected to be recovered. Costs to fulfill recognized as assets primarily consist of labor and materials costs and generally relate to engineering and set-up costs incurred prior to the

satisfaction of performance obligations begins. Assets recognized for costs to fulfill a contract are included in the "Prepaid expenses and other current assets" line of the consolidated balance sheets and were not material as of December 31, 2018 and January 1, 2018. Such assets are recognized as expenses as we transfer the related goods or services to the customer. All other costs to fulfill a contract are expensed as incurred.

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Remaining performance obligations. As of December 31, 2018 and January 1, 2018, there were no material amounts of remaining performance obligations that are required to be disclosed. As permitted by ASC 606, we have elected not to disclose information about remaining performance obligations where i) the performance obligation is part of a contract that has an original expected duration of one year or less or ii) when we recognize revenue from the satisfaction of the performance obligation in accordance with the right-to-invoice practical expedient.

3. ACQUISITION

In November 2015, Team and Furmanite Corporation (now Furmanite LLC, “Furmanite”) entered into an Agreement and Plan of Merger (the “Merger Agreement”) pursuant to which we acquired all the outstanding shares of Furmanite in a stock transaction whereby Furmanite shareholders received 0.215 shares of Team common stock for each share of Furmanite common stock they owned. The merger was completed on February 29, 2016. Outstanding Furmanite share-based payment awards were generally converted into comparable share-based awards of Team, with certain awards vesting upon the closing of the merger, pursuant to the Merger Agreement. The combination doubled the size of Team’s mechanical services capabilities and established a deeper, broader talent and resource pool that better supports customers across standard and specialty mechanical services worldwide.

The acquisition-date fair value of the consideration transferred totaled $282.3 million, which consisted of the following (in thousands, except shares):

	February 29, 2016
Common stock (8,208,006 shares)	$209,529
Converted share-based payment awards	2,001
Cash	70,811
Total consideration	$282,341

The fair value of the 8,208,006 common shares issued was determined based on the closing market price of our common shares on the acquisition date of February 29, 2016. The fair value of the converted share-based payment awards reflects an apportionment of the fair value of the awards, based on the closing market price of our common stock and other assumptions as of the acquisition date, that is attributable to employee service completed prior to the acquisition date. The fair value of the awards attributable to service after the acquisition date is recognized as share-based compensation expense over the applicable vesting periods. The cash consideration represents amounts Team paid, immediately prior to the closing of the acquisition, to settle Furmanite’s outstanding debt and certain related liabilities, which were not assumed by Team. The cash portion of the consideration was financed through additional borrowings under our banking credit facility.

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The following table presents the purchase price allocation for Furmanite (in thousands):

	February 29, 2016
Cash and cash equivalents	$37,734
Accounts receivable	65,925
Inventory	25,847
Current deferred tax assets	19,857
Prepaid expenses and other current assets	23,044
Current assets of discontinued operations	18,623
Property, plant and equipment	63,259
Intangible assets	88,958
Goodwill	89,646
Other non-current assets	687
Non-current deferred tax assets	2,542
Total assets acquired	436,122
Accounts payable	12,359
Other accrued liabilities	33,127
Income taxes payable	229
Current liabilities of discontinued operations	1,434
Non-current deferred tax liabilities	91,431
Defined benefit pension liability	13,509
Other long-term liabilities	1,692
Total liabilities assumed	153,781
Net assets acquired	$282,341

The purchase price allocation shown above is based upon the fair values at the acquisition date. The fair values recorded are “Level 3” measurements as defined in Note 11.

Of the $89.0 million of acquired intangible assets, $69.8 million was assigned to customer relationships with an estimated useful life of 12 years, $16.9 million was assigned to trade names with a weighted-average estimated useful life of 12 years and $2.3 million was assigned to developed technology with an estimated useful life of 10 years.

The $89.6 million of goodwill was assigned to the MS segment. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Furmanite. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of accounts receivable acquired was $65.9 million, considering we expect $7.9 million to be uncollectible. Additionally, we acquired accounts receivable with a fair value of $13.6 million associated with discontinued operations, which is included in the current assets of discontinued operations line above. The gross contractual amount of receivables acquired was $88.0 million

Current assets of discontinued operations as of the acquisition date also includes $3.3 million of goodwill and $1.6 million of intangible assets that were allocated to a business that we sold in December 2016, as discussed in Note 16.

The amount of current assets of discontinued operations acquired shown above is net of costs to sell of $1.1 million.

For the year ended December 31, 2016 we recognized a total of $6.7 million of acquisition costs related to the Furmanite acquisition, which were included in selling, general and administrative expenses in the consolidated statements of operations.

Our consolidated statement of operations for the year ended December 31, 2016 includes the activity of Furmanite beginning on the acquisition date of February 29, 2016. Subsequent to the acquisition date, we commenced integration activities relative to Furmanite. As a result, certain business operations have been consolidated and/or transferred from legacy Furmanite operations to legacy Team operations to facilitate the new operating structure. Revenues of $216 million and a net loss of $6.4 million are included in the year ended December 31, 2016 and only include operating results that are directly attributable to legacy Furmanite

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operations. These amounts do not reflect any attempt to adjust for the effects of integration activities, which are not practicable to determine.

Certain transactions related to the Furmanite acquisition were recognized separately from the acquisition of assets and assumption of liabilities in accordance with GAAP. These transactions, which were attributable to certain compensation (both cash and share-based) that was paid or became payable in conjunction with the closing of the acquisition, totaled $4.7 million and were recognized as selling, general and administrative expenses during the year ended December 31, 2016.

Our unaudited pro forma consolidated results of operations are shown below as if the acquisition of Furmanite had occurred on June 1, 2015. These results are not necessarily indicative of the results that would actually have occurred if the acquisition had taken place at June 1, 2015, nor are they necessarily indicative of future results (in thousands, except per share data).

	Pro forma data Year Ended December 31, 2016 (unaudited)
Revenues	$1,240,466
Income (loss) from continuing operations attributable to Team shareholders	$(7,497)
Earnings (loss) per share from continuing operations:	
Basic	$(0.25)
Diluted	$(0.25)

These amounts have been calculated after applying Team's accounting policies and adjusting the results of Furmanite to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on June 1, 2015, together with the related tax effects. Additionally, these pro forma results exclude discontinued operations as well as the impact of transaction and integration-related costs associated with the Furmanite acquisition included in the historical results.

4. RECEIVABLES

A summary of accounts receivable as of December 31, 2018 and 2017 is as follows (in thousands):

	December 31,	
	2018	2017
Trade accounts receivable	$207,266	$244,133
Unbilled revenues	76,268	69,138
Allowance for doubtful accounts	(15,182)	(11,308)
Total	$268,352	$301,963

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote. The following summarizes the activity in the allowance for doubtful accounts (in thousands):

	Twelve Months Ended December 31,		
	2018	2017	2016
Balance at beginning of period	$11,308	$7,835	$3,548
Provision for doubtful accounts	11,662	7,097	6,336
Write-off of bad debts	(7,788)	(3,624)	(2,049)
Balance at end of period	$15,182	$11,308	$7,835

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5. INVENTORY

A summary of inventory as of December 31, 2018 and 2017 is as follows (in thousands):

	December 31,	
	2018	2017
Raw materials	$8,448	$8,707
Work in progress	3,900	2,836
Finished goods	36,192	38,160
Total	$48,540	$49,703

6. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as of December 31, 2018 and 2017 is as follows (in thousands):

	December 31,	
	2018	2017
Land	$6,376	$6,698
Buildings and leasehold improvements	57,006	47,924
Machinery and equipment	269,084	261,343
Furniture and fixtures	10,253	9,405
Capitalized ERP system development costs	46,637	46,637
Computers and computer software	15,826	13,052
Automobiles	4,879	5,070
Construction in progress	6,550	12,613
Total	416,611	402,742
Accumulated depreciation and amortization	(221,817)	(199,523)
Property, plant, and equipment, net	$194,794	$203,219

Included in the table above is a building under capital lease of $5.3 million and accumulated amortization of $0.1 million as of December 31, 2018. Depreciation expense for the years ended December 31, 2018, 2017 and 2016 was $36.2 million, $35.7 million and $33.5 million, respectively.

7. INTANGIBLE ASSETS

A summary of intangible assets as of December 31, 2018 and 2017 is as follows (in thousands):

	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$174,894	$ (51,160)	$123,734
Non-compete agreements	5,433	(4,882)	551
Trade names	24,753	(20,594)	4,159
Technology	7,847	(5,187)	2,660
Licenses	851	(583)	268
Total	$213,778	$ (82,406)	$131,372

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	December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$175,226	$ (38,712)	$136,514
Non-compete agreements	5,563	(4,509)	1,054
Trade names	24,830	(6,211)	18,619
Technology	7,867	(4,292)	3,575
Licenses	859	(460)	399
Total	$214,345	$ (54,184)	$160,161

Amortization expense for the years ended December 31, 2018, 2017 and 2016 was $28.7 million, $16.5 million and $16.1 million, respectively. Amortization expense for current intangible assets is forecast to be approximately $14 million per year in 2019 and 2020 and approximately $13 million per year in 2021, 2022 and 2023. The higher amortization expense in 2018 is primarily due to a change in the estimated useful life of intangible asset associated with the Furmanite trade name. Management determined that, as a result of initiatives to consolidate the Company's branding, the useful life of this intangible asset was not expected to extend beyond December 31, 2018. In accordance with ASC 350, we accounted for the change in useful life prospectively effective January 1, 2018 and amortized the remaining balance over 2018, which resulted in incremental amortization expense in 2018 of $12 million. The weighted-average amortization period for intangible assets subject to amortization was 13.5 years as of December 31, 2018. The weighted-average amortization period as of December 31, 2018 is 13.6 years for customer relationships, 4.7 years for non-compete agreements, 14.3 years for trade names, 9.9 years for technology and 10.6 years for licenses.

8. OTHER ACCRUED LIABILITIES

A summary of other accrued liabilities as of December 31, 2018 and 2017 is as follows (in thousands):

	December 31,	
	2018	2017
Payroll and other compensation expenses	$47,988	$40,988
Insurance accruals	16,001	15,799
Property, sales and other non-income related taxes	7,271	6,483
Lease commitments	1,145	1,616
Contract liabilities	1,784	6,102
Accrued commission	2,290	1,473
Accrued interest	5,261	5,950
Volume discount	4,322	1,545
Contingent consideration	429	1,246
Professional fees	1,219	1,098
Other	7,598	10,172
Total	$95,308	$92,472

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9. INCOME TAXES

For the years ended December 31, 2018, 2017 and 2016, our income tax benefit on the loss from continuing operations reflected an effective tax rate benefit of 33%, 39% and 20%, respectively. Our income tax benefit on continuing operations for the years ended December 31, 2018, 2017 and 2016 was $31.1 million, $53.1 million and $3.1 million, respectively, and includes federal, state and foreign taxes. The components of our tax benefit on continuing operations were as follows (in thousands):

	Current	Deferred	Total
Twelve months ended December 31, 2018:			
U.S. Federal	$(3,295)	$(27,670)	$(30,965)
State & local	509	(2,360)	(1,851)
Foreign jurisdictions	3,457	(1,704)	1,753
	$671	$(31,734)	$(31,063)
Twelve months ended December 31, 2017:			
U.S. Federal	$6,177	$(62,222)	$(56,045)
State & local	170	(4,819)	(4,649)
Foreign jurisdictions	6,821	795	7,616
	$13,168	$(66,246)	$(53,078)
Twelve months ended December 31, 2016:			
U.S. Federal	$(2,048)	$(5,262)	$(7,310)
State & local	(1,338)	206	(1,132)
Foreign jurisdictions	4,529	820	5,349
	$1,143	$(4,236)	$(3,093)

The components of pre-tax income (loss) from continuing operations for the years ended December 31, 2018, 2017 and 2016 were as follows (in thousands):

	Twelve Months Ended December 31,		
	2018	2017	2016
Domestic	$(90,822)	$(149,045)	$(25,488)
Foreign	(3,387)	11,512	9,830
	$(94,209)	$(137,533)	$(15,658)

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The income tax benefit attributable to the loss from continuing operations differed from the amounts computed by applying the U.S. Federal income tax rate (21% in 2018, 35% in 2017 and 2016) to pre-tax loss from continuing operations as a result of the following (in thousands):

	Twelve Months Ended December 31,		
	2018	2017	2016
Pre-tax loss from continuing operations	$(94,209)	$(137,533)	$(15,658)
Computed income taxes at statutory rate	(19,784)	(48,136)	(5,481)
State income taxes, net of federal benefit	(2,360)	(4,709)	(713)
Foreign tax rate differential	(52)	(642)	(707)
Deferred taxes on investment in foreign subsidiaries	(7,284)	(17,079)	1,777
Non-deductible expenses	686	1,030	871
Foreign tax credits	—	(17,445)	(2,302)
Other tax credits	(1,995)	(631)	(1,033)
Deemed repatriation tax	(1,751)	24,374	—
Goodwill impairment	—	19,442	—
Dividend from foreign subsidiaries	—	—	2,021
Valuation allowance	2,923	1,249	1,986
Rate change	81	(17,360)	—
Other	(1,527)	6,829	488
Total benefit for income tax on continuing operations	$(31,063)	$(53,078)	$(3,093)

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands):

	December 31,	
	2018	2017
Deferred tax assets:		
Accrued compensation and benefits	$10,463	$9,810
Receivables	3,096	2,381
Inventory	422	873
Stock options	1,101	738
Foreign currency translation and other equity adjustments	—	2,945
Other accrued liabilities	2,058	3,066
Tax credit carry forward	1,920	2,588
Net operating loss carry forwards	48,732	35,185
Other	5,925	2,066
Deferred tax assets	73,717	59,652
Less: Valuation allowance	(10,549)	(6,479)
Deferred tax assets, net	63,168	53,173
Deferred tax liabilities:		
Property, plant and equipment	(22,429)	(20,918)
Goodwill and intangible costs	(23,210)	(27,762)
Unremitted earnings of foreign subsidiaries	(5,375)	(13,795)
Convertible debt	(7,055)	(3,622)
Other	(3,553)	(677)
Deferred tax liabilities	(61,622)	(66,774)
Net deferred tax asset (liability)	$1,546	$(13,601)

As of December 31, 2018, we had a valuation allowance of $10.5 million to reduce our deferred tax assets to an amount more likely than not to be recovered. This valuation allowance relates primarily to deferred tax assets on foreign and state net operating loss carry forwards. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

At December 31, 2018, we had net operating loss carry forwards for U.S. federal income tax purposes of $132.3 million. Of this amount, $94.7 million expires in 2036 and 2037 and $37.6 million has an indefinite carry forward period. These carry forwards are available, subject to certain limitations, to offset future taxable income. Additionally, total federal net operating losses of $13.6 million will be carried back to prior years. Further, we have state net operating loss carry forwards of $92.0 million with $77.1 million expiring various dates through 2038 and $14.9 million with an indefinite carry forward period.

In addition, as of December 31, 2018, we have an alternative minimum tax credit carry forwards of approximately $2.4 million which, under the 2017 Tax Act, can be used to offset regular income tax in future periods, or is refundable for any tax year beginning after 2017 and before 2022 in an amount equal to 50% (100% for tax years beginning in 2021). Also, at December 31, 2018, there are research and development credit carry forwards of $1.2 million.

As of December 31, 2018, we had foreign net operating loss carry forwards totaling $41.1 million that were expected to be realized in the future periods. A total of $24.9 million has an unlimited carry forward period and will therefore not expire.

At December 31, 2018, none of our undistributed earnings of foreign operations were considered to be permanently reinvested overseas. As of December 31, 2018, the deferred tax liability related to undistributed earnings of foreign subsidiaries was $5.4 million.

At December 31, 2018, we have established liabilities for uncertain tax positions of $2.2 million, inclusive of interest and penalties. To the extent these uncertainties are ultimately resolved favorably, the resulting reduction of recorded liabilities would

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have an effect on our effective tax rate. In accordance with ASC 740-10, our policy is to recognize interest and penalties related to unrecognized tax benefits through the tax provision.

We file income tax returns in the U.S. with federal and state jurisdictions as well as various foreign jurisdictions. With few exceptions, we are no longer subject to U.S. Federal, state and local or non-U.S. income tax examinations by tax authorities for years prior to 2015. The IRS audits for the tax years ended May 31, 2015 and December 31, 2015 have been completed as of December 31, 2018, and the final audit adjustment recorded was not material. The income tax laws and regulations are voluminous and are often ambiguous. As such, we are required to make certain subjective assumptions and judgments regarding our tax positions that may have a material effect on our results of operations, financial position or cash flows. We believe, however, that there is appropriate support for the income tax positions taken, and to be taken, on our returns, and that our accruals for tax liabilities are adequate for all open tax years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

Set forth below is a reconciliation of the changes in our unrecognized tax benefits associated with uncertain tax positions (in thousands):

	Twelve Months Ended December 31,		
	2018	2017	2016
Balance at beginning of year	$1,159	$858	$539
Acquisition of Furmanite uncertain tax positions	—	—	660
Additions based on current year tax positions	—	—	464
Additions based on tax positions related to prior years	1,478	301	96
Reductions based on tax positions related to prior years	(416)	—	(564)
Settlements	—	—	(337)
Balance at end of year	$2,221	$1,159	$858

The estimated amount of liabilities recorded for uncertain tax positions that we believe will be effectively settled within the next twelve months is immaterial.

The 2017 Tax Act and SAB 118 Provisional Estimates

On December 22, 2017, the U.S. government enacted the 2017 Tax Act, which significantly revised U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from 35% to 21%, implementing a territorial tax system, imposing a one-time tax on foreign unremitted earnings and setting limitations on deductibility of certain costs (e.g., interest expense), among other changes.

Due to the complexities involved in accounting for the 2017 Tax Act, the SEC issued SAB 118, which requires that companies include in their financial statements estimates of the impact of the 2017 Tax Act to the extent such estimates have been determined. Accordingly, the Company recorded the following estimates of the tax impact of the new law in its statement of operations for the year ended December 31, 2017:

a) The Company accrued an estimate of $8.4 million of tax benefit (net of applicable foreign tax credits) for the 2017 Tax Act's one-time transition tax on the foreign subsidiaries' accumulated, unremitted earnings going back to 1986. The Company has elected to pay the transition tax in installments over the period of eight years, pursuant to the guidance of the new Internal Revenue Code Section 965, however in 2019 the Company will utilize available tax credits to fully offset remaining balance of the one-time transition tax liability.

b) The Company accrued $17.4 million of provisional tax benefit related to the net change in deferred tax balances stemming from the 2017 Tax Act's reduction of the U.S. federal income tax rate,

c) The Company recorded an estimate of the state tax impact of the 2017 Tax Act, based on the current law in the states in the U.S. in which it operates, and

d) The Company calculated an estimate of the effect on certain deferred tax assets and liabilities of the Company related to the 2017 Tax Act's revised rules regarding certain incentive-based compensation tax deductions under Internal Revenue Code Section 162(m).

Pursuant to the SAB 118, the company was allowed a measurement period of up to one year after the enactment date of the 2017 Tax Act to finalize the recording of the related tax impacts. During the year ended December 31, 2018, the Company finalized the recording of the impacts of the 2017 Tax Act and recorded an income tax benefit of $1.8 million, reflecting an adjustment to

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the provisional estimate of the deemed repatriation transition tax. In 2019, we will amend the one-time transition tax to include tax credits to offset the remainder of the tax liability on the transition tax. As a result of the final calculation of the transition tax liability, the Company also recorded an adjustment to the deferred tax liability associated with investments in foreign subsidiaries.

Effective January 1, 2018, the Company is subject to GILTI for earnings and profits of its foreign subsidiaries as well as BEAT for certain tax payments between a U.S. corporation and its subsidiaries. As of December 31, 2018, the Company had no tax liabilities relating to GILTI or BEAT tax.

10. LONG-TERM DEBT, LEASES, DERIVATIVES AND LETTERS OF CREDIT

As of December 31, 2018 and 2017, our long-term debt and capital lease obligations are summarized as follows (in thousands):

	December 31, 2018	2017
Credit Facility	$ 156,843	$ 177,857
Convertible debt[1]	195,184	209,892
Capital lease obligations	5,356	—
Total long-term debt and capital lease obligations	357,383	387,749
Less: current portion of long-term debt and capital lease obligations	569	—
Total long-term debt and capital lease obligations, less current portion	$ 356,814	$ 387,749

[1] Comprised of principal amount outstanding plus embedded derivative liability (if any), less unamortized discount and issuance costs. See Convertible Debt section below for additional information.

Future maturities of long-term debt, excluding capital leases, are as follows (in thousands):

December 31	
2019	$—
2020	156,843
2021	—
2022	—
2023	230,000
Thereafter	—
Total	$386,843

For information on our capital lease obligations, see the Lease Obligations section below.

Credit Facility

In July 2015, we renewed our banking credit facility (the “Credit Facility”). In accordance with the second amendment to the Credit Facility, which was signed in February 2016, the Credit Facility had a borrowing capacity of up to

$600.0 million and consisted of a $400.0 million, five-year revolving loan facility and a $200.0 million five-year term loan facility. The swing line facility is $35.0 million. On July 31, 2017, we completed the issuance of $230.0 million of 5.00% convertible senior notes in a private offering (the “Offering,” which is described further below) and used the proceeds from the Offering to repay in full the then-outstanding term-loan portion of our Credit Facility and a portion of the outstanding revolving borrowings. Concurrent with the completion of the Offering and the repayment of outstanding borrowings discussed above, we entered into the sixth amendment to the Credit Facility, effective as of June 30, 2017, which reduced the capacity of the Credit Facility to a $300.0 million revolving loan facility, subject to a borrowing availability test (based on eligible accounts, inventory and fixed assets). The Credit Facility matures on July 7, 2020, bears interest based on a variable Eurodollar rate option (LIBOR plus 3.00% margin at December 31, 2018) and has commitment fees on unused borrowing capacity (0.50% at December 31, 2018). The Credit Facility limits our ability to pay cash dividends. The Company’s obligations under the Credit Facility are guaranteed by its material direct and indirect domestic subsidiaries and are secured by a lien on substantially all of the Company’s and the guarantors’ tangible and intangible property (subject to certain specified exclusions) and by a pledge of all of the equity interests in the Company’s material direct and indirect domestic subsidiaries and 65% of the equity interests in the Company’s material first-tier foreign subsidiaries.

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The Credit Facility contains financial covenants, which were amended in March 2018 pursuant to the seventh amendment (the "Seventh Amendment") to the Credit Facility. The Seventh Amendment eliminated the ratio of consolidated funded debt to consolidated EBITDA (the "Total Leverage Ratio," as defined in the Credit Facility agreement) covenant through the remainder of the term of the Credit Facility and also modified both the ratio of senior secured debt to consolidated EBITDA (the "Senior Secured Leverage Ratio," as defined in the Credit Facility agreement) and the ratio of consolidated EBITDA to consolidated interest charges (the "Interest Coverage Ratio," as defined in the Credit Facility agreement) as follows. The Company is required to maintain a maximum Senior Secured Leverage Ratio of not more than 3.50 to 1.00 as of December 31, 2018 and each quarter thereafter through June 30, 2019 and not more than 2.75 to 1.00 as of September 30, 2019 and each quarter thereafter. With respect to the Interest Coverage Ratio, the Company is required to maintain a ratio of not less than 2.25 to 1.00 as of December 31, 2018 and not less than 2.50 to 1.00 as of March 31, 2019 and each quarter thereafter. As of December 31, 2018, we are in compliance with these covenants. The Senior Secured Leverage Ratio and the Interest Coverage Ratio stood at 2.56 to 1.00 and 2.90 to 1.00, respectively, as of December 31, 2018. At December 31, 2018, we had $18.3 million of cash on hand and approximately $66 million of available borrowing capacity through our Credit Facility. In connection with the repayment in full of the outstanding term-loan portion of our Credit Facility of $160.0 million on July 31, 2017 and the reduction in capacity of the revolving portion of the Credit Facility, we recorded a loss of $1.2 million during the third quarter of 2017 associated with the write-off of a portion of the debt issuance costs associated with the Credit Facility. As of December 31, 2018, we had $1.8 million of unamortized debt issuance costs that are being amortized over the life of the Credit Facility.

Our ability to maintain compliance with the financial covenants is dependent upon our future operating performance and future financial condition, both of which are subject to various risks and uncertainties. Accordingly, there can be no assurance that we will be able to maintain compliance with the Credit Facility covenants as of any future date. In the event we are unable to maintain compliance with our financial covenants, we would seek to enter into an amendment to the Credit Facility with our bank group in order to modify and/or to provide relief from the financial covenants for an additional period of time. Although we have entered into amendments in the past, there can be no assurance that any future amendments would be available on terms acceptable to us, if at all.

In order to secure our casualty insurance programs we are required to post letters of credit generally issued by a bank as collateral. A letter of credit commits the issuer to remit specified amounts to the holder, if the holder demonstrates that we failed to meet our obligations under the letter of credit. If this were to occur, we would be obligated to reimburse the issuer for any payments the issuer was required to remit to the holder of the letter of credit. We were contingently liable for outstanding stand-by letters of credit totaling $22.8 million at December 31, 2018 and $22.5 million at December 31, 2017. Outstanding letters of credit reduce amounts available under our Credit Facility and are considered as having been funded for purposes of calculating our financial covenants under the Credit Facility.

Convertible Debt

Description of the Notes

On July 31, 2017, we issued $230.0 million principal amount of 5.00% Convertible Senior Notes due 2023 (the "Notes") in a private offering to qualified institutional buyers (as defined in the Securities Act of 1933) pursuant to Rule 144A under the Securities Act (the "Offering"). The Notes are senior unsecured obligations of the Company. The Notes bear interest at rate of 5.0% per year, payable semiannually in arrears on February 1 and August 1 of each year, beginning on February 1, 2018. The Notes mature on August 1, 2023 unless repurchased, redeemed or converted in accordance with their terms prior to such date. The Notes are convertible at an initial conversion rate of 46.0829 shares of our common stock per $1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately $21.70 per share, which represents a conversion premium of 40% to the last reported sale price of $15.50 per share on the NYSE on July 25, 2017, the date the pricing of the Notes was completed. The conversion rate, and thus the conversion price, may be adjusted under certain circumstances as described in the indenture governing the Notes.

Holders may convert their Notes at their option prior to the close of business on the business day immediately preceding May 1, 2023, but only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on December 31, 2017 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

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- during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per $1,000 principal amount of Notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on such trading day;

- if we call any or all of the Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; or;

- upon the occurrence of specified corporate events described in the indenture governing the Notes.

On or after May 1, 2023 until the close of business on the business day immediately preceding the maturity date, holders may, at their option, convert their Notes at any time, regardless of the foregoing circumstances.

The Notes are initially convertible into 10,599,067 shares of common stock. Previously, because the Notes could be convertible in full into more than 19.99 percent of our outstanding common stock, we were required by the listing rules of the NYSE to obtain the approval of the holders of our outstanding shares of common stock before the Notes could converted into more than 5,964,858 shares of common stock. At our annual shareholders' meeting, held on May 17, 2018, our shareholders approved the issuance of shares of common stock upon conversion of the Notes. The Notes will be convertible into, subject to various conditions, cash or shares of the Company's common stock or a combination of cash and shares of the Company's common stock, in each case, at the Company's election.

If holders elect to convert the Notes in connection with certain fundamental change transactions described in the indenture governing the Notes, we will, under certain circumstances described in the indenture governing the Notes, increase the conversion rate for the Notes so surrendered for conversion.
We may not redeem the Notes prior to August 5, 2021. We will have the option to redeem all or any portion of the Notes on or after August 5, 2021, if certain conditions (including that our common stock is trading at or above 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive)), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

Net proceeds received from the Offering were approximately $222.3 million after deducting discounts, commissions and expenses. We used $160.0 million of the net proceeds to repay all outstanding borrowings under the term-loan portion of our Credit Facility and $62.3 million of the net proceeds to repay a portion of the outstanding borrowings under the revolving portion of our Credit Facility, which may be subsequently reborrowed for general corporate purposes.

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Accounting Treatment of the Notes

As of December 31, 2018 and 2017, the Notes were recorded in our consolidated balance sheet as follows (in thousands):

	December 31,	
	2018	2017
Liability component:		
Principal	$230,000	$230,000
Unamortized issuance costs	(5,834)	(6,820)
Unamortized discount	(28,982)	(33,882)
Net carrying amount of the liability component	195,184	189,298
Embedded derivative liability[1]	—	20,594
Total[2]	$195,184	$209,892
Equity component:		
Carrying amount of the equity component, net of issuance costs[3]	$13,912	$13,912

1 The embedded derivative liability was reclassified to stockholders' equity as of May 17, 2018 and is no longer marked to fair value each period, as discussed further below. It is excluded from the table above as of December 31, 2018.

2 Included in the Long-term debt line of the consolidated balance sheets.

3 Relates to the portion of the Notes accounted for under ASC 470-20 (defined below) and is included in the "Additional paid-in capital" line of the consolidated balance sheets.

Under ASC 470-20, Debt with Conversion and Other Options, ("ASC 470-20"), an entity must separately account for the liability and equity components of convertible debt instruments that may be settled entirely or partially in cash upon conversion (such as the Notes) in a manner that reflects the issuer's economic interest cost. However, entities must first consider the guidance in ASC 815-15, Embedded Derivatives ("ASC 815-15"), to determine if an instrument contains an embedded feature that should be separately accounted for as a derivative. Unless an exception under ASC 815-15 applies, such accounting requires that an embedded feature that is not "clearly and closely related" to the host contract be accounted for separately as a derivative and marked to fair value in the statement of operations each period. The Company concluded that the conversion feature is not "clearly and closely related" to the debt host contract. However, ASC 815-15 provides an exception for embedded features that are considered both indexed to our common stock and classified in stockholders' equity. Because the Notes permit the Company to settle the conversion feature in cash, stock or any combination thereof at its election, ordinarily the conversion feature would be considered both indexed to our common stock and classified in stockholders' equity and therefore exempt from the requirements of ASC 815-15. However, because the Notes could be convertible into more than 19.99 percent of our outstanding common stock and shareholder approval in accordance with the NYSE rules (as described above) to issue more than 19.99 percent of our outstanding common stock had not yet been obtained at the time the Notes were issued, the Company could have been required to settle the conversion feature for a portion of the Notes in cash instead of shares. Therefore, the conversion feature for a portion of the Notes could not be classified in stockholders' equity and therefore the exception under ASC 815-15 did not apply. As such, the Company concluded that for a portion of the Notes, it must recognize as an embedded derivative under ASC 815-15 while the remainder of the Notes are subject to ASC 470-20.

The Company determined the portions of the Notes subject to ASC 815-15 and ASC 470-20 as follows. First, while the Notes are initially convertible into 10,599,067 shares of common stock, the occurrence of certain corporate events could increase the conversion rate, which could result in the Notes becoming convertible into a maximum of 14,838,703 shares. As noted above, we were required to obtain stockholder approval to issue more than 5,964,858 shares of stock to settle the Notes upon conversion. Therefore, approximately 40% of the maximum number of shares

were authorized for issuance without shareholder approval, while 8,873,845 shares, or approximately 60% would be required to be settled in cash. The Company thus concluded that embedded derivative accounting under ASC 815-15 was applicable to approximately 60% of the Notes, while the remaining 40% of the Notes are subject to ASC 470-20. As a result of obtaining shareholder approval for the issuance of shares of common stock upon conversion of the Notes, the embedded derivative meets the criteria to be classified in stockholders' equity, effective on the date of shareholder approval. Accordingly, we recorded the change in fair value of the embedded derivative liability in our results of operations through the shareholder approval date of May 17, 2018 and then reclassified the embedded derivative liability to stockholders' equity at its May 17, 2018 fair value of $45.4 million during the second quarter of 2018. The related income tax effects of the reclassification charged directly to stockholders' equity were $7.8 million. As a result of the reclassification to stockholders' equity, the embedded derivative will no longer be marked to fair value each period. Losses on the embedded derivative liability recognized in the consolidated statements of operations were $24.8 million for the twelve months ended December 31, 2018 (incurred in the first

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and second quarters of 2018). Gains on the embedded derivative liability recognized in the consolidated statements of operations were $0.8 million for the twelve months ended December 31, 2017.

We estimated the fair value of similar notes without the conversion feature to be $194.2 million, with the resulting conversion feature having an estimated fair value of $35.8 million at the issuance date. For the portion of the Notes subject to ASC 815-15, we recorded an embedded derivative liability at fair value of $21.4 million and for the portion of the Notes subject to ASC 470-20, we recorded $14.4 million as additional paid-in capital in stockholders' equity. The fair values recorded are "Level 2" measurements as defined in Note 11. The difference between the principal amount of the Notes and the amounts allocated to the embedded derivative liability and additional paid-in capital resulted in a debt discount of $35.8 million that is amortized as interest expense over 72 months (the six-year period from issuance to maturity of the Notes).

The Company incurred approximately $7.7 million in issuance costs associated with the Notes. Issuance costs of $7.2 million were allocated as a reduction of the carrying amount of the debt while the remaining $0.5 million were allocated as a reduction to additional paid-in capital in stockholders' equity. The portion allocated to the debt component is being amortized over the life of the debt. As of December 31, 2018, the remaining amortization period is 55 months.

The following table sets forth interest expense information related to the Notes (dollars in thousands):

	Twelve Months Ended December 31,	
	2018	2017
Coupon interest	$11,500	$4,823
Amortization of debt discount and issuance costs	5,886	2,310
Total interest expense on convertible senior notes	$17,386	$7,133
Effective interest rate	9.12 %	9.12 %

Derivatives and Hedging

ASC 815, Derivatives and Hedging ("ASC 815"), requires that derivative instruments be recorded at fair value and included in the balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception date of a derivative. Special accounting for derivatives qualifying as fair value hedges allows derivatives' gains and losses to offset related results on the hedged item in the statement of operations. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Credit risks related to derivatives include the possibility that the counter-party will not fulfill the terms of the contract. We consider counterparty credit risk to our derivative contracts when valuing our derivative instruments.

Our borrowing of €12.3 million under the Credit Facility serves as an economic hedge of our net investment in our European operations as fluctuations in the fair value of the borrowing attributable to the U.S. Dollar/Euro spot rate will offset translation gains or losses attributable to our investment in our European operations. At December 31, 2018 the €12.3 million borrowing had a U.S. Dollar value of $14.1 million.

As discussed above, we previously recorded an embedded derivative liability for a portion of the Notes. In accordance with ASC 815-15, the embedded derivative instrument was recorded at fair value each period with changes in fair value reflected in our results of operations. No hedge accounting was applied. As a result of obtaining shareholder approval for the issuance of shares upon conversion of the Notes, we recorded the change in fair value of the embedded derivative liability in our results of operations through the shareholder approval date of May 17, 2018 and then reclassified the embedded derivative liability to stockholders' equity at its May 17, 2018 fair value of $45.4 million during the second quarter of 2018. As a result of the reclassification to stockholders' equity, the embedded

derivative is no longer marked to fair value each period. See Note 11 for more information on the fair value measurement of the embedded derivative liability.

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The amounts recognized in other comprehensive income (loss), reclassified into income (loss) and the amounts recognized in income (loss) for the years ended December 31, 2018, 2017 and 2016 are as follows (in thousands):

	Gain (Loss) Recognized in Other Comprehensive Income (Loss)			Gain (Loss) Reclassified from Other Comprehensive Income (Loss) to Earnings		
	Twelve Months Ended December 31,			Twelve Months Ended December 31,		
	2018	2017	2016	2018	2017	2016
Derivatives Classified as Hedging Instruments						
Net investment hedge	$658	$(1,802)	481	$ —	$ —	$ —

	Gain (Loss) Recognized in Income (Loss)[1] Twelve Months Ended December 31,		
	2018	2017	2016
Derivatives Not Classified as Hedging Instruments			
Embedded derivative in convertible debt	$(24,783)	$818	$ —

1 Reflected as “Loss (gain) on convertible debt embedded derivative” in the consolidated statements of operations.

The following table presents the fair value totals and balance sheet classification for derivatives designated as hedges and derivatives not designated as hedges under ASC 815 (in thousands):

	December 31, 2018			December 31, 2017		
	Classification	Balance Sheet Location	Fair Value	Classification	Balance Sheet Location	Fair Value
Derivatives Classified as Hedging Instruments						
Net investment hedge	Liability	Long-term debt	$(3,904)	Liability	Long-term debt	$(3,246)
Derivatives Not Classified as Hedging Instruments						
Embedded derivative in convertible debt	Liability	Long-term debt	$—	Liability	Long-term debt	$20,594

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Lease Obligations

We enter into operating and capital leases to rent facilities and obtain vehicles and equipment for our field operations. Our obligations under non-cancellable operating and capital leases at December 31, 2018, primarily consisting of facility and auto leases, are as follows (in thousands):

Twelve Months Ended December 31,	Operating	Capital
2019	$ 23,315	$583
2020	16,858	500
2021	12,577	504
2022	9,873	524
2023	7,846	525
Thereafter	23,224	5,631
Total minimum lease payments	$ 93,693	$8,267
Less amounts representing interest		(2,911)
Present value of future minimum lease payments		$5,356

Total rent expense resulting from operating leases for the years ended December 31, 2018, 2017 and 2016 were $44.9 million, $47.7 million and $40.0 million, respectively.

11. FAIR VALUE MEASUREMENTS

We apply the provisions of ASC 820, which among other things, requires enhanced disclosures about assets and liabilities carried at fair value.

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best information available. Accordingly, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The use of unobservable inputs is intended to allow for fair value determinations in situations in which there is little, if any, market activity for the asset or liability at the measurement date. We are able to classify fair value balances based on the observability of those inputs. ASC 820 establishes a fair value hierarchy such that “Level 1” measurements include unadjusted quoted market prices for identical assets or liabilities in an active market, “Level 2” measurements include quoted market prices for identical assets or liabilities in an active market which have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets, and “Level 3” measurements include those that are unobservable and of a highly subjective measure.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis as of December 31, 2018 and 2017. As required by ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	December 31, 2018			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Liabilities:				

Contingent consideration[1]	$–	$ —	$ 429	$429
Net investment hedge	$–	$ (3,904)	$ —	$(3,904)
Embedded derivative in convertible debt[2]	$–	$ —	$ —	$—

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	December 31, 2017			
	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Liabilities:				
Contingent consideration[1]	$—	$ —	$ 1,712	$1,712
Net investment hedge	$—	$ (3,246)	$ —	$(3,246)
Embedded derivative in convertible debt[2]	$—	$ 20,594	$ —	$20,594

1 Inclusive of both current and noncurrent portions.

2 The embedded derivative liability was reclassified to stockholders' equity as of May 17, 2018 and is no longer marked to fair value each period, as discussed in Note 10.

There were no transfers in and out of Level 3 during the years ended December 31, 2018 and 2017.

The fair value of the convertible debt embedded derivative liability was estimated using a lattice model with inputs including our stock price, our stock price volatility and interest rates. As the assumptions used in the valuation are primarily derived from observable market data, the fair value measurement is classified as Level 2 in the fair value hierarchy. See Note 10 for more information on the embedded derivative liability.

The fair value of contingent consideration liabilities classified in the table above were estimated using a discounted cash flow technique with significant inputs that are not observable in the market and thus represents a Level 3 fair value measurement as defined in ASC 820. The significant inputs in the Level 3 measurement not supported by market activity include a combination of actual cash flows and probability-weighted assessments of expected future cash flows related to the acquired businesses, appropriately discounted considering the uncertainties associated with the obligation, and as calculated in accordance with the terms of the acquisition agreements.

The following table represents the changes in the fair value of Level 3 contingent consideration (in thousands):

	Twelve Months Ended December 31,	
	2018	2017
Beginning balance	$1,712	$3,739
Accretion of liability	39	222
Foreign currency effects	(14)	203
Payment	(1,106)	(1,278)
Revaluation	(202)	(1,174)
Ending balance	$429	$1,712

12. SHARE-BASED COMPENSATION

We have adopted stock incentive plans and other arrangements pursuant to which our Board of Directors (the "Board") may grant stock options, restricted stock, stock units, stock appreciation rights, common stock or performance awards to officers, directors and key employees. At December 31, 2018, there were approximately 1.5 million restricted stock units, performance awards and stock options outstanding to officers, directors and key employees. The exercise price, terms and other conditions applicable to each form of share-based compensation under our plans are generally determined by the Compensation Committee of our Board at the time of grant and may vary.

Our share-based payments consist primarily of stock units, performance awards, common stock and stock options. In May 2016, our shareholders approved the 2016 Team, Inc. Equity Incentive Plan (the "2016 Plan"), which replaced all of our previous equity compensation plans. The 2016 Plan authorized the issuance of share-based awards representing

up to 2,000,000 shares of common stock. In May 2018, our shareholders approved the 2018 Team, Inc. Equity Incentive Plan (the “2018 Plan”), which replaced the 2016 Plan. The 2018 Plan authorizes the issuance of share-based awards representing up to 450,000 shares of common stock, plus the number of shares remaining available for issuance under the 2016 Plan, plus the number of shares subject to outstanding awards under specified prior plans that may become available for reissuance in certain circumstances. Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock.

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Shares issued in connection with our share-based compensation are issued out of authorized but unissued common stock.

In connection with the acquisition of Furmanite in February 2016, we assumed the share plan related to Furmanite employee grants. As provided for in the Merger Agreement, each option to purchase Furmanite common stock outstanding immediately prior to the closing of the acquisition was converted into an option to purchase Team common stock, adjusted by the 0.215 exchange ratio. Similarly, each previously existing Furmanite restricted share, restricted stock unit or performance stock unit outstanding immediately prior to the acquisition were converted into Team restricted stock units, also at the 0.215 exchange ratio. The converted awards generally have the same terms and conditions as the replaced awards, except the vesting of certain awards was accelerated to the acquisition date and any performance conditions associated with the Furmanite awards no longer apply. The fair value of the options was determined using a Black-Scholes model, while the fair value of the restricted stock units was determined based on the market price on the acquisition date. The fair value of the converted Furmanite awards was allocated between consideration transferred in the acquisition and future share-based compensation expense, based on past service completed and future service required.

Compensation expense related to share-based compensation totaled $12.3 million, $7.9 million and $7.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. Share-based compensation expense reflects an estimate of expected forfeitures. At December 31, 2018, $18.2 million of unrecognized compensation expense related to share-based compensation is expected to be recognized over a remaining weighted-average period of 2.4 years. The recognized income tax benefit totaled $2.5 million, $0.9 million and $2.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Stock units are settled with common stock upon vesting unless it is not legally feasible to issue shares, in which case the value of the award is settled in cash. We determine the fair value of each stock unit based on the market price on the date of grant. Stock units generally vest in annual installments over four years and the expense associated with the units is recognized over the same vesting period. We also grant common stock to our directors which typically vests immediately. Compensation expense related to stock units and director stock grants totaled $7.9 million, $7.1 million, $7.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Transactions involving our stock units and director stock grants for the twelve months ended December 31, 2018 are summarized below:

	Twelve Months Ended December 31, 2018	
	No. of Stock Units	Weighted Average Fair Value
	(in thousands)	
Stock and stock units, beginning of year	854	$ 21.42
Changes during the year:		
Granted	370	$ 18.09
Vested and settled	(291)	$ 24.76
Cancelled	(77)	$ 21.37
Stock and stock units, end of year	856	$ 18.79

The weighted-average grant date fair value related to stock units and director stock grants during the years ended December 31, 2017 and 2016 were $13.64 and $34.23, respectively. The intrinsic value of stock units and director stock grants vested during the years ended December 31, 2018, 2017 and 2016 were $4.8 million, $3.0 million and $4.9 million, respectively.

We have a performance stock unit award program whereby we grant Long-Term Performance Stock Unit (“LTPSU”) awards to our executive officers. Under this program, the Company communicates “target awards” to the executive

officers at the beginning of a performance period. LTPSU awards cliff vest with the achievement of the performance goals and completion of the required service period. Settlement occurs with common stock as soon as practicable following the vesting date. LTPSU awards granted in 2017 (the "2017 Awards") and in 2018 (the "2018 Awards") are subject to a two-year performance period and a concurrent two-year service period. For the 2017 Awards, the performance goal is separated into three independent performance factors based on (i) relative total shareholder return ("RTSR") as measured against a designated peer group, (ii) RTSR as measured against a designated index and (iii) results of operations over the two-year performance period, with possible payouts ranging from 0% to 200% of the "target awards" for the first two performance factors and ranging from 0% to 300% of the "target awards" for the third performance factor. For the 2018 Awards, the performance goal is separated into two independent performance factors based on (i) RTSR as measured against a designated peer group and (ii) results of operations over the two-year performance period, with possible payouts ranging from 0% to 200% of the target awards for each of the two performance factors.

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On January 24, 2018, we granted 350,000 performance units to our Chief Executive Officer that vest in 20% increments upon the achievement of five specified Company stock price milestones, subject to a minimum vesting period of one year and the provision of service through each of the vesting dates. Settlement occurs with common stock within 30 days of the respective vesting dates. Any outstanding unvested performance units are forfeited on the fifth anniversary of the grant date.

The RTSR and the stock price milestone factors are considered to be market conditions under GAAP. For performance units subject to market conditions, we determine the fair value of the performance units based on the results of a Monte Carlo simulation, which uses market-based inputs as of the date of grant to simulate future stock returns. Compensation expense for awards with market conditions is recognized on a straight-line basis over the longer of (i) the minimum required service period and (ii) the service period derived from the Monte Carlo simulation, separately for each vesting tranche. For performance units subject to market conditions, because the expected outcome is incorporated into the grant date fair value through the Monte Carlo simulation, compensation expense is not subsequently adjusted for changes in the expected or actual performance outcome. For performance units not subject to market conditions, we determine the fair value of each performance unit based on the market price of our common stock on the date of grant. For these awards, we recognize compensation expense over the vesting term on a straight-line basis based upon the performance target that is probable of being met, subject to adjustment for changes in the expected or actual performance outcome. Compensation expense (credit) related to performance awards totaled $4.3 million, $0.8 million and $(0.4) million for the years ended December 31, 2018, 2017 and 2016, respectively.

Transactions involving our performance awards during the twelve months ended December 31, 2018 are summarized below:

	Twelve Months Ended December 31, 2018			
	Performance Units Subject to Market Conditions		Performance Units Not Subject to Market Conditions	
	No. of Stock Units[1]	Weighted Average Fair Value	No. of Stock Units[1]	Weighted Average Fair Value
	(in thousands)		(in thousands)	
Performance stock units, beginning of period	45	$ 17.66	84	$ 25.76
Changes during the period:				
Granted	465	$ 14.24	115	$ 15.00
Vested and settled	—	$ —	(15)	$ 13.45
Cancelled	(15)	$ 16.78	(39)	$ 27.95
Performance stock units, end of period	495	$ 14.47	145	$ 17.88

1 Performance units with variable payouts are shown at target level of performance.

The weighted-average grant date fair value related to performance stock units during the year ended December 31, 2017 was $19.68. No performance stock units were granted during the year ended December 31, 2016. The intrinsic value of performance stock unit awards vested during the years ended December 31, 2018, 2017 and 2016 were $0.3 million, zero and $0.4 million, respectively.

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We determine the fair value of each stock option at the grant date using a Black-Scholes model and recognize the resulting expense of our stock option awards over the period during which an employee is required to provide services in exchange for the awards, usually the vesting period. There was no compensation expense related to stock options for the year ended December 31, 2018, less than $0.1 million of expense for the year ended December 31, 2017, and $0.2 million for the year ended December 31, 2016. Our options typically vest in equal annual installments over a four-year service period. Expense related to an option grant is recognized on a straight-line basis over the specified vesting period for those options. Stock options generally have a ten-year term.

Transactions involving our stock options for the twelve months ended December 31, 2018 are summarized below:

	Twelve Months Ended December 31, 2018	
	No. of Options	Weighted Average Exercise Price
	(in thousands)	
Shares under option, beginning of year	79	$ 31.94
Changes during the year:		
Granted	—	$ —
Exercised	—	$ —
Cancelled	—	$ —
Expired	(27)	$ 30.75
Shares under option, end of year	52	$ 32.56
Exercisable at end of year	52	$ 32.56

No stock options were granted during the years ended December 31, 2018, 2017 and 2016. Options exercisable at December 31, 2018 had a weighted-average remaining contractual life of 3.5 years, and exercise prices ranging from $21.12 to $50.47. The intrinsic value of stock option awards exercised was insignificant for the years ended December 31, 2018 and 2017, but was $1.6 million for the year ended December 31, 2016.

13. EMPLOYEE BENEFIT PLANS

Defined contribution plan. Under the Team, Inc. Salary Deferral Plan (the “Plan”), contributions are made to the Plan by qualified employees at their election and our matching contributions to the Plan are made at specified rates. Our contributions to the Plan in the years ended December 31, 2018, 2017, and 2016 were approximately $11.0 million, $10.4 million, $7.1 million, respectively.

Defined benefit plans. In connection with our acquisition of Furmanite, we assumed liabilities associated with the defined benefit pension plans of two foreign subsidiaries, one plan covering certain United Kingdom employees (the “U.K. Plan”) and the other covering certain of its Norwegian employees (the “Norwegian Plan”). As the Norwegian Plan represented approximately one percent of both the Company’s total pension plan liabilities and total pension plan assets, only the schedules of net periodic pension cost (credit) and changes in benefit obligation and plan assets include combined amounts from the two plans, while assumption and narrative information relates solely to the U.K. Plan. In connection with the sale of the Company’s Norwegian operations in 2018, all assets and liabilities associated with the Norwegian Plan were transferred to the buyer.

Benefits for the U.K. Plan are based on the average of the employee’s salary for the last three years of employment. The U.K. Plan has had no new participants added since the plan was frozen in 1994 and accruals for future benefits ceased in connection with a plan curtailment in 2013. Plan assets are primarily invested in unitized pension funds managed by U.K. registered fund managers. The most recent valuation of the U.K. Plan was performed as of December 31, 2018. Estimated defined benefit pension plan contributions for 2019 are expected to be approximately $2.3 million.

Pension benefit costs and liabilities are dependent on assumptions used in calculating such amounts. The primary assumptions include factors such as discount rates, expected investment return on plan assets, mortality rates and retirement rates. The discount rate assumption used to determine end of year benefit obligations was 2.8% as of December 31, 2018. These rates are reviewed

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annually and adjusted to reflect current conditions. These rates are determined appropriate based on reference to yields. The expected return on plan assets of 3.3% for 2019 is derived from detailed periodic studies, which include a review of asset allocation strategies, anticipated future long-term performance of individual asset classes, risks (standard deviations) and correlations of returns among the asset classes that comprise the plans' asset mix. While the studies give appropriate consideration to recent plan performance and historical returns, the assumptions are primarily long-term, prospective rates of return. Mortality and retirement rates are based on actual and anticipated plan experience. In accordance with GAAP, actual results that differ from the assumptions are accumulated and are subject to amortization over future periods and, therefore, generally affect recognized expense in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the pension obligation and future expense.

Net pension cost (credit) included the following components (in thousands):

	Twelve Months Ended December 31,		
	2018	2017	2016[1]
Service cost	$77	$90	79
Interest cost	2,303	2,438	2,504
Expected return on plan assets	(3,720)	(3,110)	(2,577)
Amortization of net actuarial (gain) loss	(78)	71	—
Net periodic pension cost (credit)	$(1,418)	$(511)	6

1 Reflects net pension cost from the date of the Furmanite acquisition.

The weighted-average assumptions used to determine benefit obligations at December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	2017
Discount rate	2.8%	2.5%
Rate of compensation increase[1]	Not applicable	Not applicable
Inflation	3.2%	3.1%

1 Not applicable due to plan curtailment.

The weighted-average assumptions used to determine net periodic benefit cost (credit) for the years ended December 31, 2018 and 2017 are as follows:

	Twelve Months Ended December 31,	
	2018	2017
Discount rate	2.5%	2.7%
Expected long-term return on plan assets	4.7%	4.5%
Rate of compensation increase[1]	Not applicable	Not applicable
Inflation	3.1%	3.3%

1 Not applicable due to plan curtailment.

The plan actuary determines the expected return on plan assets based on a combination of expected yields on equity securities and corporate bonds and considering historical returns.

The expected long-term rate of return on invested assets for 2019 is determined based on the weighted average of expected returns on asset investment categories as follows: 3.3% overall, 5.8% for equities and 2.7% for debt securities.

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The following table sets forth the changes in the benefit obligation and plan assets for the years ended December 31, 2018 and 2017 (in thousands):

	Twelve Months Ended December 31,	
	2018	2017
Projected benefit obligation:		
Beginning of year	$96,875	$89,206
Service cost	77	90
Interest cost	2,303	2,438
Actuarial (gain) loss	(4,347)	890
Benefits paid	(4,539)	(4,187)
Prior service cost	669	—
Disposal of Norwegian Plan	(1,075)	—
Foreign currency translation adjustment and other	(5,404)	8,438
End of year	84,559	96,875
Fair value of plan assets:		
Beginning of year	81,899	67,967
Actual gain (loss) on plan assets	(462)	7,383
Employer contributions	2,404	4,350
Benefits paid	(4,539)	(4,187)
Disposal of Norwegian Plan	(983)	—
Foreign currency translation adjustment and other	(4,700)	6,386
End of year	73,619	81,899
Excess projected obligation under (over) fair value of plan assets at end of year	$(10,940)	$(14,976)
Amounts recognized in accumulated other comprehensive loss:		
Net actuarial loss	$(7,190)	$(7,221)
Prior service cost	(669)	—
Total	$(7,859)	$(7,221)

Significant changes affecting pension benefit obligations in 2018 compared to 2017 primarily includes actuarial gains in 2018 versus actuarial losses in 2017 due to changes in market conditions that affect the financial assumptions used to value liabilities as well as foreign currency translation adjustments due to the strengthening of the U.S. Dollar versus the British Pound in 2018. The accumulated benefit obligation for the U.K. Plan was $84.6 million and $95.6 million at December 31, 2018 and 2017, respectively.

At December 31, 2018, expected future benefit payments are as follows for the years ended December 31, (in thousands):

2019	$3,403
2020	3,536
2021	3,752
2022	3,926
2023	3,811
2024-2028	22,475
Total	$40,903

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The following tables summarize the plan assets of the U.K. Plan measured at fair value on a recurring basis (at least annually) as of December 31, 2018 and 2017 (in thousands):

December 31, 2018

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2) (a)	Significant Unobservable Inputs (Level 3) (a)
Cash	$1,119	$ 1,119	$ —	$ —
Equity securities:				
Diversified growth fund (h)	12,330	—	12,330	—
Global equity fund (o)	1,835	—	1,835	—
Fixed income securities:				
U.K. government fixed income securities (k)	18,048	—	18,048	—
U.K. government index-linked securities (l)	14,245	—	14,245	—
Global absolute return bond fund (m)	18,570	—	18,570	—
Corporate bonds (n)	7,472	—	7,472	—
Total	$73,619	$ 1,119	$ 72,500	$ —

December 31, 2017

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2) (a)	Significant Unobservable Inputs (Level 3) (a)
Cash	$651	$ 651	$ —	$ —
Equity securities:				
U.K. equity (b)	17,809	—	17,809	—
U.S. equity index (c)	4,370	—	4,370	—
European equity index (d)	4,378	—	4,378	—
Pacific rim equity index (e)	3,506	—	3,506	—
Japanese equity index (f)	2,733	—	2,733	—
Emerging markets equity index (g)	2,785	—	2,785	—
Diversified growth fund (h)	17,296	—	17,296	—
Global absolute return fund (i)	6,534	—	6,534	—
Fixed income securities:				
Cash fund (j)	5,315	—	5,315	—
U.K. government fixed income securities (k)	6,494	—	6,494	—
U.K. government index-linked securities (l)	8,934	—	8,934	—
Total	$80,805	$ 651	$ 80,154	$ —

a) The net asset value of the commingled equity and fixed income funds are determined by prices of the underlying securities, less the funds' liabilities, and then divided by the number of shares outstanding. As the funds are not traded in active markets, the commingled funds are classified as Level 2 or Level 3 assets. The net asset value is corroborated by observable market data (e.g., purchase or sale activities) for Level 2 assets.

b) This category includes investments in U.K. companies and aims to achieve a return that is consistent with the return of the FTSE All-Share Index.

c) This category includes investments in a variety of large and small U.S. companies and aims to achieve a return that is consistent with the return of the FTSE All-World USA Index.

d)

This category includes investments in a variety of large and small European companies and aims to achieve a return that is consistent with the return of the FTSE All-World Developed Europe ex-U.K. Index.

e) This category includes investments in a variety of large and small companies across the Australian, Hong Kong, New Zealand and Singapore markets and aims to achieve a return that is consistent with the return of the FTSE-All-World Developed Asia Pacific ex-Japan Index.

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f) This category includes investments in a variety of large and small Japanese companies and aims to achieve a return that is consistent with the return of the FTSE All-World Japan Index.

g) This category includes investments in companies in the Emerging Markets to achieve a return that is consistent with the return of the IFC Investable Index ex-Malaysia.

h) This category includes investments in a diversified portfolio of equity, bonds, alternatives and cash markets and aims to achieve a return that is consistent with the return of the Libor GBP 3 month +3% Index.

i) This category includes investments in a diversified portfolio of equity and bonds combined with investment strategies based on advanced derivative techniques and aims to achieve a return over rolling three-year periods equivalent to cash plus 5% per year, gross of fees.

j) This category includes investments in British pound sterling-denominated money market instruments and fixed-income securities issued by governments, corporations or other issuers which may be listed or traded on a recognized market.

k) This category includes investments in funds with the objective to provide a leveraged return to U.K. government fixed income securities (gilts) that have maturity periods ranging from 2030 to 2060.

l) This category includes investments in funds with the objective to provide a leveraged return to various U.K. government indexed-linked securities (gilts), with maturity periods ranging from 2022 to 2062. The funds invest in U.K. government bonds and derivatives.

m) This category includes investments in funds predominantly in a wide range of fixed and floating rate investment grade and below investment grade debt instruments traded on regulated markets worldwide with the objective to achieve a return of 3% above 1 month LIBOR over a 3-year basis.

n) This category includes investments in a diversified pool of debt and debt like assets to generate capital and income returns.

o) This category includes investments in a diversified portfolio of equity, bonds, money markets, alternatives and credit markets to achieve a return with downside protection through monthly put options.

Investment objectives for the U.K. Plan, as of December 31, 2018, are to:

- optimize the long-term return on plan assets at an acceptable level of risk
- maintain a broad diversification across asset classes
- maintain careful control of the risk level within each asset class

The trustees of the U.K. Plan have established a long-term investment strategy comprising global investment weightings targeted at 27.5% (range of 25% to 30%) for equity securities/diversified growth funds and 72.5% (range of 70% to 75%) for debt securities. During 2018, the U.K. Plan changed its asset allocation and target asset allocations to reduce investment strategy risk from equity to debt securities. Diversified growth funds are actively managed absolute return funds that hold a combination of debt and equity securities. Selection of the targeted asset allocation was based upon a review of the expected return and risk characteristics of each asset class, as well as the correlation of returns among asset classes. Actual allocations to each asset class vary from target allocations due to periodic investment strategy changes, market value fluctuations and the timing of benefit payments and contributions.

The following table sets forth the weighted-average asset allocation and target asset allocations as of December 31, 2018 and 2017 by asset category:

	Asset Allocations		Target Asset Allocations	
	2018	2017	2018	2017
Equity securities and diversified growth funds[1]	19.2%	73.5%	27.5%	65.0%
Debt securities[2]	79.2%	25.7%	72.5%	35.0%
Other	1.5 %	0.8 %	— %	— %
Total	100 %	100 %	100 %	100 %

1 Diversified growth funds refer to actively managed absolute return funds that hold a combination of equity and debt securities.

2

Includes investments in funds with the objective to provide leveraged returns to U.K. government fixed income securities, U.K. government indexed-linked securities, global bonds, and corporate bonds.

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14. COMMITMENTS AND CONTINGENCIES

Con Ed Matter. We have, from time to time, provided temporary leak repair services to the steam system of Consolidated Edison Company of New York ("Con Ed") located in New York City. In July 2007, a Con Ed steam main located in midtown Manhattan ruptured resulting in one death and other injuries and property damage. As of December 31, 2018, eighty-three lawsuits are currently pending against Con Ed, the City of New York and Team in the Supreme Court of New York, alleging that our temporary leak repair services may have contributed to the cause of the rupture, allegations which we dispute. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, Con Ed is alleging that our contract with Con Ed requires us to fully indemnify and defend Con Ed for all claims asserted against Con Ed including those amounts that Con Ed has paid to settle with certain plaintiffs for undisclosed sums as well as Con Ed's own alleged damages to its infrastructure. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits. We maintain insurance coverage, subject to a deductible limit of $250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the ultimate outcome of these matters will have a material adverse effect on our financial position, results of operations, or cash flows.

Patent Infringement Matters. In December 2014, our subsidiary, Quest Integrity Group, LLC, filed three patent infringement lawsuits against three different defendants, two in the U.S. District of Delaware (the "Delaware Cases") and one in the U.S. District of Western Washington (the "Washington Case"). Quest Integrity alleges that the three defendants infringed Quest Integrity's patent, entitled "2D and 3D Display System and Method for Furnace Tube Inspection". This Quest Integrity patent generally teaches a system and method for displaying inspection data collected during the inspection of furnace tubes in petroleum and petro-chemical refineries. The subject patent litigation is specific to the visual display of the collected data and does not relate to Quest Integrity's underlying advanced inspection technology. In these lawsuits Quest Integrity is seeking temporary and permanent injunctive relief, as well as monetary damages. Defendants have denied they infringe any valid claim of Quest Integrity's patent, and have asserted declaratory judgment counterclaims that the patent at issue is invalid and/or unenforceable, and not infringed. In June 2015, the U.S. District of Delaware denied our motions for preliminary injunctive relief in the Delaware Cases (that is, our request that the defendants stop using our patented systems and methods during the pendency of the actions). In March 2017, the judge in the Delaware Cases granted summary judgment against Quest Integrity, finding certain patent claims of the asserted patent invalid. In late 2018 and early 2019, Quest Integrity settled with two of the three defendants and has appealed the ruling in the Delaware Case with the remaining defendant.

We are involved in various other lawsuits and are subject to various claims and proceedings encountered in the normal conduct of business. In our opinion, any uninsured losses that might arise from these lawsuits and proceedings will not have a materially adverse effect on our consolidated financial statements.

We establish a liability for loss contingencies, when information available to us indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

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15. SEGMENT AND GEOGRAPHIC DISCLOSURES

ASC 280, Segment Reporting, requires we disclose certain information about our operating segments where operating segments are defined as “components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.” We conduct operations in three segments: IHT, MS Group and Quest Integrity Group. Furmanite, which we acquired in the first quarter of 2016 (see Note 3), is included in the MS segment, except that Furmanite’s corporate-related activities are included within corporate and shared support services in the tables below. Discontinued operations are not allocated to the segments.

In July 2018, we announced an organizational restructuring and certain new leadership appointments. The organizational changes include a Product and Service Line organization and an Operations organization. The Product and Service Lines organization is responsible for value positioning and pricing, standardization of best practices, technical training and program development, and technology innovation across Team’s global enterprise. The Operations organization, comprised of cross-segment divisions aligned by major geographic regions, will be responsible for executing product and service delivery in accordance with established Team service line standards, safety and quality protocols. Overall company management and decision-making by our chief operating decision maker continues to be performed according to the structure of the three operating segments (IHT, MS and Quest Integrity). Accordingly, these changes had no effect on our reportable segments.

Segment data for our three operating segments are as follows (in thousands):

	Twelve Months Ended December 31,		
	2018	2017	2016
Revenues:			
IHT	$617,378	$588,441	$589,478
MS	532,365	529,973	539,627
Quest Integrity	97,186	81,797	67,591
Total	$1,246,929	$1,200,211	$1,196,696

	Twelve Months Ended December 31,		
	2018	2017	2016
Operating income (loss):			
IHT[1]	$37,329	$11,128	$43,367
MS[1]	6,323	(33,993)	27,283
Quest Integrity	20,138	12,337	4,780
Corporate and shared support services	(102,751)	(104,582)	(78,548)
Total	$(38,961)	$(115,110)	$(3,118)

1 Includes goodwill impairment loss of $21.1 million and $54.1 million for IHT and MS, respectively, for the year ended December 31, 2017.

	Twelve Months Ended December 31,		
	2018	2017	2016
Capital expenditures[1]:			
IHT	$7,643	$10,505	$8,803
MS	11,141	17,791	15,077
Quest Integrity	3,526	3,316	2,007
Corporate and shared support services	3,621	5,186	19,956
Total	$25,931	$36,798	$45,843

1

Excludes capital leases. Totals may vary from amounts presented in the consolidated statements of cash flows due to the timing of cash payments.

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	Twelve Months Ended December 31,		
	2018	2017	2016
Depreciation and amortization:			
IHT	$18,810	$19,279	$19,853
MS	36,177	23,412	21,387
Quest Integrity	4,285	4,423	5,323
Corporate and shared support services	5,590	5,029	2,110
Total	$64,862	$52,143	$48,673

Separate measures of Team's assets by operating segment are not produced or utilized by management to evaluate segment performance.

A geographic breakdown of our revenues for the years ended December 31, 2018, 2017 and 2016 and our total long-lived assets as of December 31, 2018, 2017 and 2016 are as follows (in thousands):

	Total Revenues[1]	Total Long-lived Assets[2]
Twelve months ended December 31, 2018		
United States	$908,382	$ 298,567
Canada	139,900	4,165
Europe	126,142	20,224
Other foreign countries	72,505	3,210
Total	$1,246,929	$ 326,166
Twelve months ended December 31, 2017		
United States	$871,367	$ 330,909
Canada	134,256	5,377
Europe	119,603	22,480
Other foreign countries	74,985	4,614
Total	$1,200,211	$ 363,380
Twelve months ended December 31, 2016		
United States	$889,967	$ 348,123
Canada	128,122	5,901
Europe	108,720	20,249
Other foreign countries	69,887	4,962
Total	$1,196,696	$ 379,235

1 Revenues attributable to individual countries/geographic areas are based on the country of domicile of the legal entity that performs the work.

2 Excludes goodwill, intangible assets not being amortized that are to be held and used, financial instruments and deferred tax assets.

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16. DISCONTINUED OPERATIONS

As part of our acquisition of Furmanite, we acquired a pipeline inspection business that primarily performed process management inspection services to contractors and operators participating primarily in the midstream oil and gas market in the U.S. We previously concluded that this business was not a strategic fit for Team and we completed the sale of business in December 2016. Proceeds from the sale were $13.3 million cash (net of costs to sell) and a $1.5 million principal amount of a note from the buyer that bears interest at a 5% stated rate per annum, payable quarterly in arrears, with the principal amount due in full at maturity in January 2020.

We concluded that this business qualified as a discontinued operation upon its acquisition under GAAP. Therefore, we classified the operating results as discontinued operations in our consolidated statements of operations. Discontinued operations does not include any allocation of corporate overhead expense or interest expense. For information about the assets and liabilities of discontinued operations acquired in the Furmanite acquisition, see Note 3.

Loss from discontinued operations, net of income tax, from the date of the Furmanite acquisition, consists of the following (in thousands):

	Twelve Months Ended December 31, 2016
Revenues	$46,771
Operating expenses	43,081
Gross margin	3,690
Selling, general and administrative expenses	1,939
Gain on disposal	7
Income from discontinued operations, before income tax	1,758
Less: Provision for income taxes	1,869
Loss from discontinued operations, net of income tax	$(111)

The provision for income taxes on discontinued operations includes the effect of a permanent difference associated with non-deductible goodwill that was derecognized as part of the disposal transaction.

Cash flows attributable to our discontinued operations are included in our statements of consolidated cash flows. For the year ended December 31, 2016, there were no material amounts of depreciation, amortization, capital expenditures or significant operating non-cash items related to discontinued operations.

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17. RESTRUCTURING AND OTHER RELATED CHARGES

Our restructuring and other related charges, net for the years ended December 31, 2018, 2017 and 2016 are summarized by segment as follows (in thousands):

	Twelve Months Ended December 31,		
	2018	2017	2016
OneTEAM Program			
Severance and related costs			
IHT	$2,995	$—	$—
MS	2,514	—	—
Quest Integrity	418	—	—
Corporate and shared support services	800	—	—
Subtotal	6,727	—	—
2017 Cost Savings Initiative			
Severance and related costs			
IHT	—	966	—
MS	—	1,622	—
Quest Integrity	—	428	—
Corporate and shared support services	—	864	—
Subtotal	—	3,880	—
Furmanite Belgium and Netherlands Exit			
Severance and related costs (credits)			
MS	—	(173)	4,862
Disposal (gain)/impairment loss			
MS	—	(1,056)	651
Subtotal	—	(1,229)	5,513
Grand total	$6,727	$2,651	$5,513

OneTEAM Program. In the fourth quarter of 2017, we engaged outside consultants to assess all aspects of our business for improvement and cost saving opportunities. In the first quarter of 2018, we completed the design phase of the project, known as OneTEAM, and entered in the deployment phase starting in the second quarter of 2018. As part of the OneTEAM Program, we have decided to eliminate certain employee positions. For the twelve months ended December 31, 2018, we have incurred severance charges of $6.7 million, which is also the amount we have incurred cumulatively to date. As the OneTEAM Program continues, we expect some additional employee positions may be identified and impacted, resulting in additional severance costs. We expect that the OneTEAM Program will be largely completed in the first half of 2019.

A rollforward of our accrued severance liability associated with this program is presented below (in thousands):

	Twelve Months Ended December 31, 2018
Balance, beginning of period	$ —
Charges	6,727
Payments	(4,444)

Balance, end of period	$ 2,283

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2017 Cost Savings Initiative. On July 24, 2017, we announced our commitment to a cost savings initiative to take direct actions to reduce our overall cost structure due to a continuation of weak market conditions. This initiative was completed in the latter part of 2017. No costs or expenses were recognized in the consolidated statements of operations for this initiative during the twelve months ended December 31, 2018. The resulting severance and related charges of this initiative, which were generally recorded in the third and fourth quarters of 2017, amounted to $3.9 million during the year ended December 31, 2017. This is also the amount we have incurred cumulatively to date. Most of these expenses were paid in cash in 2017.

Furmanite Belgium and Netherlands Exit. Due to continued economic softness and unfavorable costs structures, we committed to a plan to exit the acquired Furmanite operations in Belgium and the Netherlands in the fourth quarter of 2016 and communicated the plan to the affected employees. The closures are now complete. During the year ended December 31, 2017, we recorded a reduction to severance costs of $0.2 million and a disposal gain of $1.1 million. The disposal gain resulted from an asset sale of the Furmanite operations in Belgium, which was completed during the first quarter of 2017, whereby we conveyed the business operations, $0.3 million of cash and approximately $0.2 million of other assets to the purchaser in exchange for the assumption by the purchaser of certain liabilities, primarily severance-related liabilities of $1.6 million associated with the employees who transferred to the purchaser in connection with the transaction.

A rollforward of our accrued severance liability associated with the Belgium and Netherlands exit is presented below (in thousands):

	Twelve Months Ended December 31, 2017
Balance, beginning of period	$ 4,846
Charges (credits), net	(173)
Payments	(3,144)
Disposal	(1,601)
Foreign currency adjustments	72
Balance, end of period	$ —

With respect to these exit activities, to date we have incurred cumulatively $4.7 million of severance-related costs and an impairment loss on property, plant and equipment of $0.7 million, partially offset by a disposal gain of $1.1 million.

18. ACCUMULATED OTHER COMPREHENSIVE LOSS

A summary of changes in accumulated other comprehensive loss included within shareholders' equity is as follows (in thousands):

	Twelve Months Ended December 31, 2018					Twelve Months Ended December 31, 2017				
	Foreign Currency Translation Adjustments	Foreign Currency Hedge	Defined benefit pension plans	Tax Provision	Total	Foreign Currency Translation Adjustments	Foreign Currency Hedge	Defined benefit pension plans	Tax Provision	Total
Balance at beginning of year	$(21,366)	$3,246	$(7,221)	$5,545	$(19,796)	$(31,973)	$5,048	$(10,518)	$8,443	$(29,000)
	(9,241)	658	(638)	(3,045)	(12,266)	10,607	(1,802)	3,297	(2,898)	9,204

Other comprehensive income (loss)										
Adoption of new accounting principle	—	—	—	(2,330)	(2,330)	—	—	—	—	—
Balance at end of year	$(30,607)	$3,904	$(7,859)	$170	$(34,392)	$(21,366)	$3,246	$(7,221)	$5,545	$(19,796)

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The following table represents the related tax effects allocated to each component of other comprehensive income (loss) (in thousands):

	Twelve Months Ended December 31,								
	2018			2017			2016		
	Gross Amount	Tax Effect	Net Amount	Gross Amount	Tax Effect	Net Amount	Gross Amount	Tax Effect	Net Amount
Foreign currency translation adjustments	$(9,241)	$(2,923)	$(12,164)	$10,607	$(2,919)	$7,688	$(3,849)	$1,351	$(2,498)
Foreign currency hedge	658	(162)	496	(1,802)	688	(1,114)	481	(181)	300
Defined benefit pension plans	(638)	40	(598)	3,297	(667)	2,630	(10,518)	2,090	(8,428)
Total	$(9,221)	$(3,045)	$(12,266)	$12,102	$(2,898)	$9,204	$(13,886)	$3,260	$(10,626)

19. ISSUANCE AND REPURCHASE OF COMMON STOCK

At-the-Market Equity Issuance Program. On November 28, 2016, we filed with the SEC a prospectus supplement, to our October 2016 shelf registration statement on Form S-3 (the “Shelf Registration Statement”), under which we could have sold up to $150.0 million of our common stock through an “at-the-market” equity offering program (the “ATM Program”). Through December 31, 2016, we sold 167,931 shares of common stock under the ATM Program. The net proceeds from such sales were $6.0 million after deducting the aggregate commissions paid of approximately $0.1 million and were used to reduce outstanding indebtedness. No shares of common stock were sold under the ATM Program during 2017.

On July 31, 2017, we delivered written notice to Merrill Lynch, Pierce, Fenner & Smith Incorporated, Raymond James & Associates, Inc. and SunTrust Robinson Humphrey, Inc. (collectively, the “Agents”) of our termination of the ATM Equity Offering^{SM} Sales Agreement, dated November 28, 2016 (the “Sales Agreement”), pursuant to Section 9(a) thereof. The Sales Agreement was terminable by us or the Agents for any reason at any time without penalty upon three days’ written notice to the other party.

In connection with the filing of the Shelf Registration Statement and the commencement of the ATM Program, we capitalized costs totaling $0.7 million, substantially all of which was written off to selling, general and administrative expense in 2017 after the cancellation of the ATM Program.

Common Stock Repurchase Plan. On June 23, 2014, our Board authorized an increase in the stock repurchase plan limit to $50.0 million (less $13.3 million repurchased previously). During year ended May 31, 2015, we repurchased 546,977 shares for a total cost of $21.1 million. During the year ended December 31, 2016, we repurchased 274,110 shares for a total cost of $7.6 million. In the fourth quarter of 2016, these 821,087 shares were retired and are not included in common stock issued and outstanding as of December 31, 2016. The retirement of the shares resulted in a reduction in common stock of $0.2 million, a reduction of $9.1 million to additional paid-in capital, and a $19.4 million reduction to retained earnings. No shares were repurchased during the years ended December 31, 2018 and 2017. At December 31, 2018, $7.9 million remained available to repurchase shares under the stock repurchase plan. Under the Credit Facility, the Company is limited in its ability to make stock repurchases unless the Total Leverage Ratio is below 2.50 to 1.00. Notwithstanding such provision, in the event that after giving pro forma effect to such repurchase, if Liquidity (as defined in the Credit Agreement) is at least $15.0 million and the Total Leverage Ratio is less than or equal to 4.00 to 1.00, the Credit Facility generally permits the Company to make stock repurchases provided that such repurchases, plus any payments of cash dividends, do not exceed $50.0 million in the aggregate.

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20. QUARTERLY FINANCIAL DATA (Unaudited)

The following is a summary of selected unaudited quarterly financial data for the years ended December 31, 2018 and 2017 (in thousands, except per share data):

	Year Ended December 31, 2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	$302,385	$343,889	$290,856	$309,799	$1,246,929
Gross margin	$75,534	$97,182	$70,139	$85,401	$328,256
Operating income (loss)	$(14,125)	$1,799	$(19,694)	$(6,941)	$(38,961)
Income (loss) from continuing operations[1]	$(12,264)	$(31,341)	$(23,526)	$3,985	$(63,146)
Net income (loss)[1]	$(12,264)	$(31,341)	$(23,526)	$3,985	$(63,146)
Basic earnings (loss) per share:					
Continuing operations[1]	$(0.41)	$(1.04)	$(0.78)	$0.13	$(2.10)
Net income (loss)[1]	$(0.41)	$(1.04)	$(0.78)	$0.13	$(2.10)
Diluted earnings (loss) per share:					
Continuing operations[1]	$(0.41)	$(1.04)	$(0.78)	$0.13	$(2.10)
Net income (loss)[1]	$(0.41)	$(1.04)	$(0.78)	$0.13	$(2.10)

	Year Ended December 31, 2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues	$286,554	$312,256	$285,067	$316,334	$1,200,211
Gross margin	$74,804	$84,643	$68,941	$81,611	$309,999
Operating loss[2]	$(12,088)	$(6,693)	$(94,116)	$(2,213)	$(115,110)
Income (loss) from continuing operations[1]	$(9,508)	$(11,086)	$(83,528)	$19,667	$(84,455)
Net income (loss)[1]	$(9,508)	$(11,086)	$(83,528)	$19,667	$(84,455)
Basic earnings (loss) per share:					
Continuing operations[1]	$(0.32)	$(0.37)	$(2.80)	$0.66	$(2.83)
Net income (loss)[1]	$(0.32)	$(0.37)	$(2.80)	$0.66	$(2.83)
Diluted earnings (loss) per share:					
Continuing operations[1]	$(0.32)	$(0.37)	$(2.80)	$0.66	$(2.83)
Net income (loss)[1]	$(0.32)	$(0.37)	$(2.80)	$0.66	$(2.83)

[1] Income (loss) from continuing operations, net income (loss) and the related earnings (loss) per share amounts for each of the quarters in 2018 and the fourth quarter of 2017 are revised from those originally reported to correct errors in income tax expense (benefit) associated with the measurement of valuation allowances on deferred tax assets. Based on an analysis of quantitative and qualitative factors, the Company determined the related impacts were not material to its previously filed annual or interim consolidated financial statements, and therefore, amendments of previously filed reports are not required.

[2] Includes a goodwill impairment loss of $75.2 million in the third quarter of 2017.

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FIVE YEAR COMPARISON

In November 2015, we announced we would change our fiscal year end to December 31 of each calendar year from May 31. In connection with this change, we previously filed a Transition Report on Form 10-K to report the results of the seven-month transition period from June 1, 2015 to December 31, 2015.

The following table presents our selected financial data. This information has been derived from our audited consolidated financial statements. This historical data should be read in conjunction with the Consolidated Financial Statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” (in thousands, except per share data).

	Years Ended December 31,			Seven Months Ended December 31,	Years Ended May 31,	
	2018	2017 [1]	2016 [2]	2015 [3]	2015	2014
Statements of operations data:						
Revenues	$1,246,929	$1,200,211	$1,196,696	$571,718	$842,047	$749,527
Operating income (loss)	$(38,961)	$(115,110)	$(3,118)	$19,162	$68,465	$53,421
Income (loss) from continuing operations	$(63,146)	$(84,455)	$(12,565)	$8,878	$40,497	$30,149
Net income (loss) attributable to Team shareholders	$(63,146)	$(84,455)	$(12,676)	$8,878	$40,070	$29,855
Basic earnings (loss) per share:						
Continuing operations	$(2.10)	$(2.83)	$(0.45)	$0.43	$1.95	$1.46
Net income (loss)	$(2.10)	$(2.83)	$(0.45)	$0.43	$1.95	$1.46
Diluted earnings (loss) per share:						
Continuing operations	$(2.10)	$(2.83)	$(0.45)	$0.41	$1.85	$1.40
Net income (loss)	$(2.10)	$(2.83)	$(0.45)	$0.41	$1.85	$1.40
Weighted-average shares outstanding						
Basic	30,031	29,849	28,095	20,852	20,500	20,439
Diluted	30,031	29,849	28,095	21,425	21,651	21,285
Balance sheet data:						
Total assets	$977,821	$1,055,835	$1,147,418	$798,991	$523,833	$484,941
Long-term debt and other long-term liabilities	$380,770	$430,877	$464,060	$368,685	$97,234	$92,753
Stockholders’ equity	$457,100	$477,174	$535,637	$338,146	$335,375	$317,045
Working capital	$215,005	$249,276	$253,636	$222,399	$197,472	$173,671
Noncontrolling interest	$—	$—	$—	$—	$6,034	$5,678
Other financial data:						
Depreciation and amortization	$64,862	$52,143	$48,673	$19,426	$22,787	$21,468
Goodwill impairment loss	$—	$75,241	$—	$—	$—	$—
Share-based compensation	$12,256	$7,876	$7,313	$3,469	$4,838	$4,239
Capital expenditures[4]	$25,931	$36,798	$45,843	$25,802	$28,769	$33,016

1 As revised. See Note 1 to the consolidated financial statements for additional information.

2 Effective February 29, 2016, the Company acquired Furmanite Corporation for a purchase price of $282.3 million, consisting of $209.5 million of common stock, $2.0 million of converted share-based payment awards and $70.8 million of cash.

3 Effective July 7, 2015, the Company acquired Qualspec Group LLC for a purchase price of $255.5 million, consisting of $4.0 million cash, $265.0 million of other assets and $13.5 million in current and long-term liabilities.

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Excludes capital leases. Totals may vary from amounts presented in the consolidated statements of cash flows due to the timing of cash payments.

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