

ELAN CORP PLC
Form 20-F
February 28, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 20-F**

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR(g)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2007
OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR**
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to**

Commission file number: 001-13896

Elan Corporation, plc
(Exact name of Registrant as specified in its charter)

Ireland
*(Jurisdiction of
incorporation or organization)*

**Treasury Building, Lower Grand Canal Street,
Dublin 2, Ireland**
(Address of principal executive offices)

**William Daniel, Secretary
Elan Corporation, plc
Treasury Building, Lower Grand Canal Street
Dublin 2, Ireland
011-353-1-709-4000
liam.daniel@elan.com**

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 471,413,777 Ordinary Shares.

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

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

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

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

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

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

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

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

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General

As used herein, we, our, us, Elan and the Company refer to Elan Corporation, plc (public limited company) and consolidated subsidiaries, unless the context requires otherwise. All product names appearing in italics are trademarks of Elan. Non-italicized product names are trademarks of other companies.

Our Consolidated Financial Statements contained in this Form 20-F have been prepared on the basis of accounting principles generally accepted in the United States (U.S. GAAP). In addition to the Consolidated Financial Statements contained in this Form 20-F, we also prepare separate Consolidated Financial Statements, included in our Annual Report, in accordance with International Financial Reporting Standards (IFRS), which differ in certain significant respects from U.S. GAAP. The Annual Report under IFRS is a separate document from this Form 20-F.

Unless otherwise indicated, our Consolidated Financial Statements and other financial data contained in this Form 20-F are presented in United States (U.S.) dollars (\$). We prepare our Consolidated Financial Statements on the basis of a calendar fiscal year beginning on January 1 and ending on December 31. References to a fiscal year in this Form 20-F shall be references to the fiscal year ending on December 31 of that year. In this Form 20-F, financial results and operating statistics are, unless otherwise indicated, stated on the basis of such fiscal years.

Forward-Looking Statements

Statements included herein that are not historical facts are forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. The forward-looking statements involve a number of risks and uncertainties and are subject to change at any time. In the event such risks or uncertainties materialize, our results could be materially affected.

This Form 20-F contains forward-looking statements about our financial condition, results of operations and estimates, business prospects and products and potential products that involve substantial risks and uncertainties. These statements can be identified by the fact that they use words such as anticipate, estimate, project, intend, plan, believe and other words and terms of similar meaning in connection with any discussion of future operating or financial performance or events. Among the factors that could cause actual results to differ materially from those described or projected herein are the following: (1) the potential of *Tysabri*[®] (*natalizumab*) and the incidence of serious adverse events associated with *Tysabri* (including cases of progressive multifocal leukoencephalopathy (PML)); (2) the success of our research and development (R&D) activities (including, in particular, whether the Phase 2 and 3 clinical trials for AAB-001 and the Phase 1 clinical trials for ACC-001 are successful) and the speed with which regulatory authorizations and product launches may be achieved; (3) our ability to maintain financial flexibility and sufficient cash, cash equivalents, and investments and other assets capable of being monetized to meet our liquidity requirements; (4) whether restrictive covenants in our debt obligations will adversely affect us; (5) competitive developments affecting our products, including the introduction of generic competition following the loss of patent protection or marketing exclusivity for our products (including, in particular, *Maxipime*[®] (*cefepime hydrochloride*), which lost its basic U.S. patent protection in March 2007 and now faces generic competition, *Azactam*[®] (*aztreonam for injection, USP*), which lost its basic U.S. patent protection in October 2005 and several of the products from which we derive manufacturing or royalty revenues, which are under patent challenge by potential generic competitors); (6) our ability to protect our patents and other intellectual property; (7) difficulties or delays in manufacturing our products (we are dependent on third parties for the manufacture of our products); (8) trade buying patterns; (9) pricing pressures and uncertainties regarding healthcare reimbursement and reform; (10) the failure to comply with anti-kickback and false claims laws in the United States (including, in particular, with respect to past marketing practices with respect to our former *Zonegran*[®] product, which are being investigated by the

U.S. Department of Justice and the U.S. Department of Health and Human Services. The resolution of the Zonegran matter could require us to pay substantial fines and to take other actions that could have a material adverse effect on us); (11) extensive government regulation; (12) risks from potential environmental liabilities; (13) failure to comply with our reporting and payment obligations under Medicaid or other government programs; (14) exposure to product liability risks; (15) an adverse effect that could result from the putative class action lawsuits initiated following the voluntary suspension of the commercialization and clinical dosing of *Tysabri* and the outcome of our other pending or future litigation; (16) the volatility of our stock price; and (17) some of our agreements that may discourage or prevent someone from acquiring us. We assume no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.**A. Selected Financial Data**

The selected financial data set forth below is derived from our Consolidated Financial Statements and should be read in conjunction with, and is qualified by reference to, Item 5. Operating and Financial Review and Prospects and our Consolidated Financial Statements and related notes thereto.

Years Ended December 31,	2007	2006	2005	2004	2003
	(In millions, except per share data)				
Income Statement Data:					
Total revenue	\$ 759.4	\$ 560.4	\$ 490.3	\$ 481.7	\$ 685.6
Operating loss	\$ (265.3) ⁽¹⁾	\$ (166.4) ⁽²⁾	\$ (198.5) ⁽³⁾	\$ (302.1) ⁽⁴⁾	\$ (360.5) ⁽⁵⁾
Net loss from continuing operations	\$ (405.0)	\$ (267.3)	\$ (384.2)	\$ (413.7)	\$ (474.6)
Net income/(loss) from discontinued operations			0.6	19.0	(31.5)
Net loss	\$ (405.0) ⁽⁶⁾	\$ (267.3) ⁽²⁾	\$ (383.6) ⁽⁷⁾	\$ (394.7) ⁽⁴⁾	\$ (506.1) ⁽⁸⁾
Basic and diluted loss per Ordinary Share: ⁽⁹⁾					
Net loss from continuing operations	\$ (0.86)	\$ (0.62)	\$ (0.93)	\$ (1.06)	\$ (1.33)
Net income/(loss) from discontinued operations (net of tax)				0.05	(0.09)
Total basic and diluted loss per Ordinary Share	\$ (0.86)	\$ (0.62)	\$ (0.93)	\$ (1.01)	\$ (1.42)
At December 31,	2007	2006	2005	2004	2003
	(In millions)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 423.5	\$ 1,510.6	\$ 1,080.7	\$ 1,347.6	\$ 778.2
Restricted cash	\$ 29.6	\$ 23.2	\$ 24.9	\$ 192.7	\$ 33.1

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Investment securities	current	\$ 276.9	\$ 11.2	\$ 10.0	\$ 65.5	\$ 349.4
Total assets		\$ 1,781.4	\$ 2,746.3	\$ 2,340.9	\$ 2,975.9	\$ 3,029.8
Debt		\$ 1,765.0	\$ 2,378.2	\$ 2,017.2	\$ 2,260.0	\$ 1,500.0
Total shareholders	equity/(deficit)	\$ (234.7)	\$ 85.1	\$ 16.9	\$ 205.0	\$ 617.9
Weighted-average number of shares						
outstanding	Basic and diluted	468.3	433.3	413.5	390.1	356.0

- (1) *After other net charges of \$84.6 million, primarily relating to a \$52.2 million impairment of the Maxipime and Azactam intangible assets and net severance and restructuring costs of \$32.4 million.*
- (2) *After other net gains of \$20.3 million, primarily relating to an arbitration award of \$49.8 million, offset by acquired in-process research and development costs of \$22.0 million and severance, restructuring and other costs of \$7.5 million; and after a \$43.1 million net gain on sale of products and businesses.*
- (3) *After other net charges of \$4.4 million, primarily relating to net severance, restructuring and other costs of \$14.4 million, offset by a credit of \$10.0 million primarily associated with a litigation settlement; and after a \$103.4 million net gain on sale of businesses.*
- (4) *After other net charges of \$59.8 million, primarily relating to the settlement of the U.S. Securities and Exchange Commission (SEC) investigation and the shareholder class action lawsuit of \$56.0 million; and after a \$44.2 million net gain on sale of businesses.*

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- (5) *After other net charges of \$403.2 million, primarily relating to asset impairments of \$32.6 million, severance, restructuring and other costs of \$29.7 million, Elan Pharmaceuticals Investments II, Ltd. (EPIL II)/Elan Pharmaceuticals III, Ltd. waiver fee of \$16.8 million, and the purchase of royalty rights of \$297.6 million; and after a net gain of \$267.8 million on the sale of businesses and repurchase of debt.*
- (6) *After other net charges of \$84.6 million, primarily relating to a \$52.2 million impairment of the Maxipime and Azactam intangible assets and net severance and restructuring costs of \$32.4 million; and after an \$18.8 million net charge on debt retirement.*
- (7) *After other net charges of \$4.4 million, primarily relating to net severance, restructuring and other costs of \$14.4 million, offset by a credit of \$10.0 million primarily associated with a litigation settlement; a \$103.4 million net gain on sale of businesses; and after a net charge of \$51.8 million on the retirement of debt.*
- (8) *After other net charges of \$403.2 million, primarily relating to asset impairments of \$32.6 million, severance, restructuring and other costs of \$29.7 million and the purchase of royalty rights of \$297.6 million, offset by a net gain of \$267.8 million on the sale of businesses and repurchase of debt; and after charges of \$136.5 million, primarily relating to investments and the guarantee issued to the noteholders of EPIL II.*
- (9) *Earnings per share is based on the weighted-average number of outstanding Ordinary Shares and the effect of potential dilutive securities including stock options, Restricted Stock Units (RSUs), warrants and convertible debt securities, unless anti-dilutive.*

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider all of the information set forth in this Form 20-F, including the following risk factors, when investing in our securities. The risks described below are not the only ones that we face. Additional risks not currently known to us or that we presently deem immaterial may also impair our business operations. We could be materially adversely affected by any of these risks. This Form 20-F also contains forward-looking statements that involve risks and uncertainties. Forward-looking statements are not guarantees of future performance, and actual results may differ materially from those contemplated by such forward-looking statements.

Our future success depends upon the continued successful commercialization of Tysabri and the successful development and commercialization of additional products. If Tysabri is not commercially successful, either because of the incidence of serious adverse events associated with Tysabri (including cases of PML) or for other reasons, or if our Phase 2 and 3 clinical trials for AAB-001 are not successful and we do not successfully develop and commercialize additional products, we will be materially and adversely affected.

While approximately 40% of our 2007 revenue was generated by our Elan Drug Technologies (EDT) business unit, we have only four marketed products and several potential products in clinical development. Our future success depends upon the continued successful commercialization of *Tysabri* and the development and the successful

commercialization of additional products.

Uncertainty created by the serious adverse events that have occurred or may occur, with respect to *Tysabri*, and the restrictive labeling and distribution system for *Tysabri* mandated by regulatory agencies, may significantly impair the commercial potential for *Tysabri*. If there are more serious adverse events in patients treated with *Tysabri* (including cases of PML), then we may be seriously and adversely affected.

We commit substantial resources to our R&D activities, including collaborations with third parties such as Biogen Idec Inc. (Biogen Idec) with respect to *Tysabri*, and Wyeth and Transition Therapeutics, Inc. (Transition), with respect to parts of our Alzheimer's disease (AD) programs. We have committed significant resources to the development and the commercialization of *Tysabri* and to the other potential products in our development pipeline (in particular, AAB-001). These investments may not be successful.

In the pharmaceutical industry, the R&D process is lengthy, expensive and involves a high degree of risk and uncertainty. This process is conducted in various stages and, during each stage, there is a substantial risk that potential products in our R&D pipeline, including product candidates from our Alzheimer's disease research programs such as AAB-001, ELND005 and ACC-001, will experience difficulties, delays or failures. If our Phase 2 and 3 clinical trials for AAB-001 are not successfully completed, we will be materially and adversely affected.

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A number of factors could affect our ability to successfully develop and commercialize products, including our ability to:

- Establish sufficient safety and efficacy of new drugs or biologics;
- Obtain and protect necessary intellectual property for new technologies, products and processes;
- Recruit patients in clinical trials;
- Complete clinical trials on a timely basis;
- Observe applicable regulatory requirements;
- Receive and maintain required regulatory approvals;
- Obtain competitive/favorable reimbursement coverage for developed products on a timely basis;
- Manufacture or have manufactured sufficient commercial quantities of products at reasonable costs;
- Effectively market developed products; and
- Compete successfully against alternative products or therapies.

Even if we obtain positive results from preclinical or clinical trials, we may not achieve the same success in future trials. Earlier stage trials are generally based on a limited number of patients and may, upon review, be revised or negated by authorities or by later stage clinical results. The results from preclinical testing and early clinical trials have often not been predictive of results obtained in later clinical trials. A number of new drugs and biologics have shown promising results in initial clinical trials, but subsequently failed to establish sufficient safety and effectiveness data to obtain necessary regulatory approvals. Data obtained from preclinical and clinical activities are subject to varying interpretations, which may delay, limit or prevent regulatory approval. Clinical trials may not demonstrate statistically sufficient safety and effectiveness to obtain the requisite regulatory approvals for product candidates. In addition, as happened with *Tysabri*, unexpected serious adverse events can occur in patients taking a product after the product has been commercialized.

Our failure to successfully commercialize *Tysabri* and develop and commercialize other products (such as AAB-001) would materially adversely affect us.

We have substantial future cash needs and potential cash needs and we may not be successful in generating or otherwise obtaining the funds necessary to meet our other future and potential needs.

At December 31, 2007, we had \$1,765.0 million of debt. At such date, we had cash and cash equivalents, current restricted cash and current investments of \$720.5 million. Our substantial indebtedness could have important consequences to us. For example, it does or could:

- Increase our vulnerability to general adverse economic and industry conditions;
- Require us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, thereby reducing the availability of our cash flow to fund R&D, working capital, capital expenditures, acquisitions, investments and other general corporate purposes;

Limit our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate;

Place us at a competitive disadvantage compared to our competitors that have less debt; and

Limit our ability to borrow additional funds.

We estimate that we have sufficient cash, liquid resources and current assets and investments to meet our liquidity requirements for at least the next 12 months. Although we expect to continue to incur operating losses in 2008, in making our liquidity estimates, we have also assumed a certain level of operating performance. Our future operating performance will be affected by general economic, financial, competitive, legislative, regulatory and business conditions and other factors, many of which are beyond our control. If our future operating performance does not meet our expectations, including our failure to continue to successfully commercialize *Tysabri*, then we

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could be required to obtain additional funds. If our estimates are incorrect or are not consistent with actual future developments and we are required to obtain additional funds, then we may not be able to obtain those funds on commercially reasonable terms, or at all, which would have a material adverse effect on our financial condition. In addition, if we are not able to generate sufficient liquidity from operations, we may be forced to curtail programs, sell assets or otherwise take steps to reduce expenses. Any of these steps may have a material adverse effect on our prospects.

Restrictive covenants in our debt instruments restrict or prohibit our ability to engage in or enter into a variety of transactions, which could adversely affect us.

The agreements governing our outstanding indebtedness contain various restrictive covenants that limit our financial and operating flexibility. The covenants do not require us to maintain or adhere to any specific financial ratio, but do restrict within limits our ability to, among other things:

Incur additional debt;

Create liens;

Enter into transactions with related parties;

Enter into some types of investment transactions;

Engage in some asset sales or sale and leaseback transactions;

Pay dividends or buy back our Ordinary Shares; and

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

The breach of any of these covenants may result in a default under the applicable agreement, which could result in the indebtedness under the agreement becoming immediately due and payable. Any such acceleration would result in a default under our other indebtedness subject to cross-acceleration provisions. If this were to occur, we might not be able to pay our debts or obtain sufficient funds to refinance them on reasonable terms, or at all. In addition, complying with these covenants may make it more difficult for us to successfully execute our business strategies and compete against companies not subject to similar constraints.

Our industry and the markets for our products are highly competitive.

The pharmaceutical industry is highly competitive. Our principal pharmaceutical competitors consist of major international companies, many of which are larger and have greater financial resources, technical staff, manufacturing, R&D and marketing capabilities than Elan. We also compete with smaller research companies and generic drug manufacturers.

A drug may be subject to competition from alternative therapies during the period of patent protection or regulatory exclusivity and, thereafter, it may be subject to further competition from generic products. The price of pharmaceutical products typically declines as competition increases.

Our product *Azactam* lost its basic U.S. patent protection in October 2005. To date, no generic *Azactam* product has been approved.

In addition, the U.S. basic patent covering our product *Maxipime* expired in March 2007. *Maxipime* became subject to generic competition following the expiration of the basic patent, and that has materially and adversely affected our sales of *Maxipime*.

Generic competitors have challenged existing patent protection for several of the products from which we earn manufacturing or royalty revenue. If these challenges are successful, our manufacturing and royalty revenue will be materially and adversely affected.

Generic competitors do not have to bear the same level of R&D and other expenses associated with bringing a new branded product to market. As a result, they can charge much less for a competing version of our product. Managed care organizations typically favor generics over brand name drugs, and governments encourage, or under

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some circumstances mandate, the use of generic products, thereby reducing the sales of branded products that are no longer patent protected. Governmental and other pressures toward the dispensing of generic products may rapidly and significantly reduce, or slow the growth in, the sales and profitability of any of our products not protected by patents or regulatory exclusivity and may adversely affect our future results and financial condition. The launch of competitive products, including generic versions of our products, has had and will have a material and adverse effect on our revenues and results of operations.

Our competitive position depends, in part, upon our continuing ability to discover, acquire and develop innovative, cost-effective new products, as well as new indications and product improvements protected by patents and other intellectual property rights. We also compete on the basis of price and product differentiation and through our sales and marketing organization. If we fail to maintain our competitive position, then our revenues and results of operations may be materially adversely affected.

If we are unable to secure or enforce patent rights, trade secrets or other intellectual property, then our revenues and potential revenues may be materially reduced and we may be subject to substantial fines and judgments.

Because of the significant time and expense involved in developing new products and obtaining regulatory approvals, it is very important to obtain patent and intellectual property protection for new technologies, products and processes. Our success depends in large part on our continued ability to obtain patents for our products and technologies, maintain patent protection for both acquired and developed products, preserve our trade secrets, obtain and preserve other intellectual property such as trademarks and copyrights, and operate without infringing the proprietary rights of third parties.

The degree of patent protection that will be afforded to technologies, products and processes, including ours, in the United States and in other markets is dependent upon the scope of protection decided upon by patent offices, courts and legislatures in these countries. There is no certainty that our existing patents or, if obtained, future patents, will provide us substantial protection or commercial benefit. In addition, there is no assurance that our patent applications or patent applications licensed from third parties will ultimately be granted or that those patents that have been issued or are issued in the future will prevail in any court challenge. Our competitors may also develop products, including generic products, similar to ours using methods and technologies that are beyond the scope of our patent protection, which could adversely affect the sales of our products.

Although we believe that we make reasonable efforts to protect our intellectual property rights and to ensure that our proprietary technology does not infringe the rights of other parties, we cannot ascertain the existence of all potentially conflicting claims. Therefore, there is a risk that third parties may make claims of infringement against our products or technologies. In addition, third parties may be able to obtain patents that prevent the sale of our products or require us to obtain a license and pay significant fees or royalties in order to continue selling our products.

There has been, and we expect there will continue to be, significant litigation in the industry regarding patents and other intellectual property rights. Litigation and other proceedings concerning patents and other intellectual property rights in which we are involved have been and will continue to be protracted, expensive and could be distracting to our management. Our competitors may sue us as a means of delaying the introduction of our products. Any litigation, including any interference proceedings to determine priority of inventions, oppositions to patents or litigation against our licensors may be costly and time consuming and could adversely affect us. In addition, litigation has been and may be instituted to determine the validity, scope or non-infringement of patent rights claimed by third parties to be pertinent to the manufacturing, use or sale of our or their products. The outcome of any such litigation could adversely affect the validity and scope of our patents or other intellectual property rights, hinder, delay or prevent the marketing and sale of our products and cost us substantial sums of money.

If we experience significant delays in the manufacture of our products or in the supply of raw materials for our products, then sales of our products could be materially adversely affected.

We do not manufacture *Tysabri*, *Prialt*, *Maxipime* or *Azactam*. Our dependence upon collaborators and third parties for the manufacture of our products may result in unforeseen delays or other problems beyond our control.

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For example, if our third-party manufacturers are not in compliance with current good manufacturing practices (cGMP) or other applicable regulatory requirements, then the supply of our products could be materially adversely affected. If we are unable to retain or obtain replacements for our third-party manufacturers or if we experience delays or difficulties with our third-party manufacturers in producing our products (as we did with *Maxipime* in 2006 and prior years), then sales of these products could be materially and adversely affected. In this event, we may be unable to enter into alternative manufacturing arrangements on commercially reasonable terms, if at all.

Our manufacturers require supplies of raw materials for the manufacture of our products. We do not have dual sourcing of our required raw materials. The inability to obtain sufficient quantities of required raw materials could materially adversely affect the supply of our products.

Buying patterns of wholesalers and distributors may cause fluctuations in our periodic results.

Our product revenue may vary periodically due, in part, to buying patterns of our wholesalers and distributors. In the event that wholesalers and distributors determine, for any reason, to limit purchases of our products, sales of those products would be adversely affected. For example, wholesalers and distributors may order products in larger than normal quantities prior to anticipated price increases for those products. This excess purchasing in any period could cause sales of those products to be lower than expected in subsequent periods.

We are subject to pricing pressures and uncertainties regarding healthcare reimbursement and reform.

In the United States, many pharmaceutical products and biologics are subject to increasing pricing pressures, including pressures arising from recent Medicare reform. Our ability to commercialize products successfully depends, in part, upon the extent to which healthcare providers are reimbursed by third-party payers, such as governmental agencies, including the Centers for Medicare and Medicaid Services, private health insurers and other organizations, such as health maintenance organizations (HMOs), for the cost of such products and related treatments. In addition, if healthcare providers do not view current or future Medicare reimbursements for our products favorably, then they may not prescribe our products. Third-party payers are increasingly challenging the pricing of pharmaceutical products by, among other things, limiting the pharmaceutical products that are on their formulary lists. As a result, competition among pharmaceutical companies to place their products on these formulary lists has reduced product prices. If reasonable reimbursement for our products is unavailable or if significant downward pricing pressures in the industry occur, then we could be materially adversely affected.

Recent reforms in Medicare added a prescription drug reimbursement benefit for all Medicare beneficiaries. Although we cannot predict the full effects on our business of this legislation, it is possible that the new benefit, which is being managed by private health insurers, pharmacy benefit managers, and other managed care organizations, will result in decreased reimbursement for prescription drugs, which may further exacerbate industry-wide pressure to reduce the prices charged for prescription drugs. This could harm our ability to generate revenues. In addition, managed care organizations, HMOs, preferred provider organizations, institutions and other government agencies continue to seek price discounts. In addition, certain states have proposed and certain other states have adopted various programs to control prices for their seniors and low-income drug programs, including price or patient reimbursement constraints, restrictions on access to certain products, importation from other countries, such as Canada, and bulk purchasing of drugs.

We encounter similar regulatory and legislative issues in most other countries. In the European Union (EU) and some other international markets, the government provides health care at low direct cost to consumers and regulates pharmaceutical prices or patient reimbursement levels to control costs for the government-sponsored healthcare system. This price regulation leads to inconsistent prices and some third-party trade in our products from markets with lower prices. Such trade-exploiting price differences between countries could undermine our sales in markets with

higher prices.

The pharmaceutical industry is subject to anti-kickback and false claims laws in the United States.

In addition to the U.S. Food and Drug Administration (FDA) restrictions on marketing of pharmaceutical products, several other types of state and federal laws have been applied to restrict some marketing practices in the pharmaceutical industry in recent years. These laws include anti-kickback statutes and false claims statutes.

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The federal healthcare program anti-kickback statute prohibits, among other things, knowingly and willfully offering, paying, soliciting, or receiving remuneration to induce or in return for, purchasing, leasing, ordering or arranging for the purchase, lease or order of any healthcare item or service reimbursable under Medicare, Medicaid or other federally financed healthcare programs. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on one-hand, and prescribers, purchasers and formulary managers on the other. Although there are a number of statutory exemptions and regulatory safe harbors protecting some common activities from prosecution, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchases or recommendations may be subject to scrutiny if they do not qualify for an exemption or safe harbor. Our practices may not in all cases meet all of the criteria for safe harbor protection from anti-kickback liability.

Federal false claims laws prohibit any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government, or knowingly making, or causing to be made, a false statement to get a false claim paid. Recently, several pharmaceutical and other healthcare companies have been prosecuted under these laws for allegedly providing free product to customers with the expectation that the customers would bill federal programs for the product. Additionally, another pharmaceutical company settled charges under the federal False Claims Act relating to off-label promotion. The majority of states also have statutes or regulations similar to the federal anti-kickback law and false claims laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payer. Sanctions under these federal and state laws may include civil monetary penalties, exclusion of a manufacturer's products from reimbursement under government programs, criminal fines, and imprisonment.

In January 2006, Elan received a subpoena from the U.S. Department of Justice and the Department of Health and Human Services, Office of Inspector General, asking for documents and materials primarily related to our marketing practices for Zonegran. In April 2004, we completed the sale of our interests in Zonegran in North America and Europe to Eisai Co. Ltd. (Eisai). We are cooperating with the government in its investigation. The resolution of this matter could require Elan to pay substantial fines and to take other actions that could have a material adverse effect on Elan. In April 2006, Eisai delivered to Elan a notice making a contractual claim for indemnification in connection with a similar subpoena received by Eisai.

Because of the breadth of such federal and state laws and the narrowness of the safe harbors, it is possible that more of our business activities could be subject to challenge under one or more of such laws. Such a challenge could have a material adverse effect on our liquidity and our operations.

We are subject to extensive government regulation, which may adversely affect our ability to bring new products to market and may adversely affect our ability to manufacture and market our existing products.

The pharmaceutical industry is subject to significant regulation by state, local, national and international governmental regulatory authorities. In the United States, the FDA regulates the design, development, preclinical and clinical testing, manufacturing, labeling, storing, distribution, import, export, record keeping, reporting, marketing and promotion of our pharmaceutical products, which include drugs, biologics and medical devices. Failure to comply with regulatory requirements at any stage during the regulatory process could result in, among other things, delays in the approval of applications or supplements to approved applications, refusal of a regulatory authority to review pending market approval applications or supplements to approved applications, warning letters, fines, import or export restrictions, product recalls or seizures, injunctions, total or partial suspension of production, civil penalties, withdrawals of previously approved marketing applications or licenses, recommendations by the FDA or other regulatory authorities against governmental contracts, and criminal prosecutions.

We must obtain and maintain approval for our products from regulatory authorities before such products may be sold in a particular jurisdiction. The submission of an application to a regulatory authority with respect to a product does not guarantee that approval to market the product will be granted. Each authority generally imposes its own requirements and may delay or refuse to grant approval, even though a product has been approved in another country. In our principal markets, including the United States, the approval process for a new product is complex, lengthy, expensive and subject to unanticipated delays. We cannot be sure when or whether approvals from regulatory authorities will be received or that the terms of any approval will not impose significant limitations that

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could negatively impact the potential profitability of the approved product. Even after a product is approved, it may be subject to regulatory action based on newly discovered facts about the safety and efficacy of the product, on any activities that regulatory authorities consider to be improper or as a result of changes in regulatory policy. Regulatory action may have a material adverse effect on the marketing of a product, require changes in the product's labeling or even lead to the withdrawal of the regulatory marketing approval of the product.

All facilities and manufacturing techniques used for the manufacture of products and devices for clinical use or for sale in the United States must be operated in conformity with cGMPs, the FDA's regulations governing the production of pharmaceutical products. There are comparable regulations in other countries. Any finding by the FDA or other regulatory authority that we are not in substantial compliance with cGMP regulations or that we or our employees have engaged in activities in violation of these regulations could interfere with the continued manufacture and distribution of the affected products, up to the entire output of such products, and, in some cases, might also require the recall of previously distributed products. Any such finding by the FDA or other regulatory agency could also affect our ability to obtain new approvals until such issues are resolved. The FDA and other regulatory authorities conduct scheduled periodic regulatory inspections of our facilities to ensure compliance with cGMP regulations. Any determination by the FDA or other regulatory authority that we, or one of our suppliers, are not in substantial compliance with these regulations or are otherwise engaged in improper or illegal activities could result in substantial fines and other penalties and could cut off our supply of products.

Our business exposes us to risks of environmental liabilities.

We use hazardous materials, chemicals and toxic compounds that could expose people or property to accidental contamination, events of non-compliance with environmental laws, regulatory enforcement and claims related to personal injury and property damage. If an accident occurred or if we were to discover contamination caused by prior operations, then we could be liable for cleanup, damages or fines, which could have an adverse effect on us.

The environmental laws of many jurisdictions impose actual and potential obligations on us to remediate contaminated sites. These obligations may relate to sites that we currently own or lease, sites that we formerly owned or operated, or sites where waste from our operations was disposed. These environmental remediation obligations could significantly impact our operating results. Stricter environmental, safety and health laws and enforcement policies could result in substantial costs and liabilities to us, and could subject our handling, manufacture, use, reuse or disposal of substances or pollutants to more rigorous scrutiny than is currently the case. Consequently, compliance with these laws could result in significant capital expenditures, as well as other costs and liabilities, which could materially adversely affect us.

If we fail to comply with our reporting and payment obligations under the Medicaid rebate program or other governmental pricing programs, then we could be subject to material reimbursements, penalties, sanctions and fines.

As a condition of reimbursement under Medicaid, we participate in the U.S. federal Medicaid rebate program, as well as several state rebate programs. Under the federal and state Medicaid rebate programs, we pay a rebate to each state for our products that are reimbursed by those programs. The amount of the rebate for each unit of product is set by law, based on reported pricing data. The rebate amount may also include a penalty if our prices increase faster than the rate of inflation.

As a manufacturer of single-source, innovator and non-innovator multiple-source products, rebate calculations vary among products and programs. The calculations are complex and, in some respects, subject to interpretation by governmental or regulatory agencies, the courts and us. The Medicaid rebate amount is computed each quarter based on our pricing data submission to the Centers for Medicare and Medicaid Services at the U.S. Department of Health

and Human Services. The terms of our participation in the program impose an obligation to correct the prices reported in previous quarters, as may be necessary. Any such corrections could result in an overage or shortfall in our rebate liability for past quarters (up to 12 past quarters), depending on the direction of the correction. Governmental agencies may also make changes in program interpretations, requirements or conditions of participation, some of which may have implications for amounts previously estimated or paid.

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U.S. Federal law requires that any company that participates in the federal Medicaid rebate program extend comparable discounts to qualified purchasers under the Public Health Services pharmaceutical pricing program. This pricing program extends discounts comparable to the Medicaid net price to a variety of community health clinics and other entities that receive health services grants from the Public Health Service, as well as outpatient utilization at hospitals that serve a disproportionate share of poor patients.

Additionally, each calendar quarter, we calculate and report an Average Sales Price (ASP) for all products covered by Medicare Part B (primarily injectable or infused products). We submit ASP information for each such product within 30 days of the end of each calendar quarter. This information is then used to set reimbursement levels to reimburse Part B providers for the drugs and biologicals dispensed to Medicare Part B participants.

Furthermore, pursuant to the Veterans Health Care Act, a Non-Federal Average Manufacturer Price is calculated each quarter and a Federal Ceiling Price is calculated each year for every Covered Drug marketed by us. These prices are used to set pricing for purchases by the military arm of the government.

These price reporting obligations are complicated and often involve decisions regarding issues for which there is no clear-cut guidance from the government. Failure to submit correct pricing data can subject us to material civil, administrative and criminal penalties.

We are subject to continuing potential product liability risks, which could cost us material amounts of money.

Risks relating to product liability claims are inherent in the development, manufacturing and marketing of our products. Any person who is injured while using one of our products, or products that we are responsible for, may have a product liability claim against us. Since we distribute and sell our products to a wide number of end users, the risk of such claims could be material. Persons who participate in clinical trials involving our products may also bring product liability claims.

Excluding any self-insured arrangements, we currently do not maintain product liability insurance for the first \$25.0 million of aggregate claims, but do maintain coverage for the next \$175.0 million with our insurers. Our insurance coverage may not be sufficient to cover fully all potential claims, nor can we guarantee the solvency of any of our insurers.

If our claims experience results in higher rates, or if product liability insurance otherwise becomes costlier because of general economic, market or industry conditions, then we may not be able to maintain product liability coverage on acceptable terms. If sales of our products increase materially, or if we add significant products to our portfolio, then we will require increased coverage and may not be able to secure such coverage at reasonable rates or terms.

We and some of our officers and directors have been named as defendants in putative class actions; an adverse outcome in the class actions could result in a substantial judgment against us.

We and some of our officers and directors have been named as defendants in putative class actions filed in 2005. The class action complaints allege claims under the U.S. federal securities laws and state laws. The complaints allege that we caused the release of materially false or misleading information regarding *Tysabri*. The complaints seek damages and other relief that the courts may deem just and proper. We believe that the claims in the lawsuits are without merit and intend to defend against them vigorously.

An adverse result in the lawsuits could have a material adverse effect on us.

Our stock price is volatile, which could result in substantial losses for investors purchasing shares.

The market prices for our shares and for securities of other companies engaged primarily in biotechnology and pharmaceutical development, manufacture and distribution are highly volatile. The market price of our shares likely will continue to fluctuate due to a variety of factors, including:

Material public announcements by us;

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Developments regarding *Tysabri*;

Results of clinical trials with respect to our products under development (in particular AAB-001) and those of our competitors;

The timing of new product launches by others and us;

Events related to our marketed products and those of our competitors;

Regulatory issues affecting us;

Availability and level of third-party reimbursement;

Developments relating to patents and other intellectual property rights;

Political developments and proposed legislation affecting the pharmaceutical industry;

Economic and other external factors;

Hedge or arbitrage activities by holders of our securities;

Period-to-period fluctuations in our financial results or results that do not meet or exceed market expectations; and

Market trends relating to or affecting stock prices across our industry, whether or not related to results or news regarding our competitors or us.

Certain provisions of agreements to which we are a party may discourage or prevent a third party from acquiring us and could prevent shareholders from receiving a premium for their shares.

We are a party to agreements that may discourage a takeover attempt that might be viewed as beneficial to shareholders who wish to receive a premium for their shares from a potential bidder. For example:

Our collaboration agreement with Biogen Idec provides Biogen Idec with an option to buy the rights to *Tysabri* in the event that we undergo a change of control, which may limit our attractiveness to potential acquirers;

Until June 20, 2010, Biogen Idec and its affiliates are, subject to limited exceptions, restricted from, among other things, seeking to acquire or acquiring control of us;

Under the terms of indentures governing much of our debt, any acquirer would be required to make an offer to repurchase the debt for cash in connection with some change of control events; and

If we or Wyeth undergo a change of control, our collaboration agreement with Wyeth permits an acquirer to assume the role of the acquired party in most circumstances. Our collaboration agreement with Wyeth restricts Wyeth and its subsidiaries from seeking to acquire us in some circumstances.

Item 4. *Information on the Company.*

A. History and Development of the Company

Elan, an Irish public limited company, is a neuroscience-based biotechnology company headquartered in Dublin, Ireland. We were incorporated as a private limited company in Ireland in December 1969 and became a public limited company in January 1984. Our principal executive offices are located at Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland, and our telephone number is 353-1-709-4000. Our principal research and development, manufacturing and marketing facilities are located in Ireland and the United States.

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B. Business Overview

Our operations are organized into two business units: Biopharmaceuticals and Elan Drug Technologies (EDT). Biopharmaceuticals engages in research, development and commercial activities primarily in the following areas:

Alzheimer s disease Our scientists have been leaders in Alzheimer s disease research for more than two decades, and insights from their work have evolved the field s fundamental view of the disease. Today, we are testing several compounds in clinical studies with the hope that they may result in therapies that may alter the underlying cause of the disease.

Parkinson s disease Our research effort in Parkinson s disease is designed to improve our understanding of the condition and, as we have done with Alzheimer s disease, to translate that understanding into potential new approaches to treatment.

Multiple sclerosis (MS) Our researchers pioneered an approach to MS that led to the approval of *Tysabri*, the first new class of therapy approved for relapsing remitting MS in nearly a decade.

Crohn s disease (CD) We recently gained FDA approval of *Tysabri* for Crohn s disease therapy and continue to make progress in our work on this and other related disorders.

Severe chronic pain Our researchers synthesized the venom of a sea snail into *Prialt*, the first new intrathecal treatment for severe chronic pain in nearly 20 years.

EDT is an established, profitable and growing specialty pharmaceutical business unit of Elan. For nearly 40 years, EDT has been applying its skills and knowledge to enhance the performance of dozens of drugs that have been marketed worldwide. Today, products enabled by EDT technologies are used by millions of patients each day.

ALZHEIMER S DISEASE

Alzheimer s disease is a degenerative brain disorder that primarily affects older people. It can begin with simple forgetfulness, but rapidly progresses into more advanced symptoms, including confusion, language disturbances, personality and behavior changes, impaired judgment and profound dementia. As the disease advances, most patients will eventually need complete skilled nursing care, and in the absence of other illnesses, the progressive loss of brain function will likely cause death. It is estimated that more than 5 million Americans and more than 24 million people worldwide, at the age of 60 years or older, suffer from some form of dementia.

Elan s Approach to Alzheimer s Disease

A hallmark pathology of Alzheimer s disease is the formation of plaques made of beta amyloid that are formed through a process known as the beta amyloid cascade. Beta amyloid is actually a small part of a larger protein called the amyloid precursor protein (APP). Beta amyloid is formed when enzymes called secretases clip (or cleave) APP. It is becoming increasingly clear that once beta amyloid is released, it exists in multiple physical forms with distinct functional activities. It is believed that the toxic effects of these forms are likely responsible for the complex mental disruption characteristic of Alzheimer s disease.

Our scientific approach to treating Alzheimer s disease focuses on the beta amyloid hypothesis, as it is believed that blocking the generation of beta amyloid in the brain or enhancing the clearance of beta amyloid from the brain will result in the successful treatment of Alzheimer s disease patients. Our efforts are focused on three distinct aspects of the beta amyloid cascade:

Clearing existing beta amyloid from the brain (beta amyloid immunotherapies);

Preventing aggregation of beta amyloid in the brain (ELND005); and

Preventing production of beta amyloid in the brain (secretase inhibitors).

Our scientists are investigating three key therapeutic approaches that target the elimination and prevention of production or aggregation of beta amyloid. In collaboration with Wyeth, we are developing beta amyloid immunotherapies. Separately, we have research programs focused on small molecule inhibitors of beta secretase and gamma secretase, enzymes whose actions result in the over-production of beta amyloid in the brains of patients

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with Alzheimer's disease. In collaboration with Transition, we are developing a small molecule therapeutic that acts by breaking down and preventing the aggregation of beta amyloid fibrils.

Beta Amyloid Immunotherapies

Beta amyloid immunotherapy pioneered by Elan involves the treatment of Alzheimer's disease by inducing or enhancing the body's immune response in order to clear toxic species of beta amyloid from the brain. In collaboration with Wyeth, our scientists have been developing a series of monoclonal antibodies and active immunization approaches that may have the ability to selectively clear a variety of beta amyloid species. These new approaches have the potential to deliver immunotherapies with robust and specific therapeutic activity.

The first candidate from the collaboration with Wyeth, AN-1792 (an immunoconjugate vaccine), showed great promise but was discontinued in 2002 when a small subset of patients (6%) developed a type of brain inflammation. The AN-1792 program played a major role in advancing the understanding of the relationship between beta amyloid and Alzheimer's disease, and contributed to a growing body of scientific evidence pointing to the promise of immunotherapies as potential treatments for Alzheimer's disease. Long-term follow-up data presented in 2007 evaluated participants from the AN-1792 Phase 2 clinical trial and found that 4.5 years after dosing had stopped, patients who had responded to treatment continued to show significantly slower decline, compared to placebo patients, on two key measures of patient function: the Disability Assessment for Dementia and the Dependence Scale.

Based upon the proof of principle established by work on AN-1792, four distinct new programs emerged that seek to build upon the promising efficacy signal, including bapineuzumab (AAB-001), which is generally viewed as one of the most advanced programs with disease-modifying potential in the field, and ACC-001.

Bapineuzumab (AAB-001) and AAB-002 with Wyeth

Bapineuzumab (AAB-001) is an experimental humanized monoclonal antibody delivered intravenously that is being studied as a potential treatment for mild to moderate Alzheimer's disease. Bapineuzumab is thought to bind to and clear beta amyloid peptide in the brain. It is designed to provide antibodies to beta amyloid directly to the patient, rather than requiring patients to mount their own immune responses. Bapineuzumab has received fast-track designation from the FDA, which means that it may receive expedited approval in certain circumstances, in recognition of its potential to address the significant unmet needs of patients with Alzheimer's disease.

In May 2007, Elan and Wyeth announced the decision to initiate a Phase 3 clinical program for bapineuzumab. The Phase 3 program encompasses studies in North America and the rest of the world (ROW). In December 2007, we announced that the first patient had been dosed in the studies taking place in North America. It is expected that the ROW studies will begin enrolling patients during the first half of 2008.

The Phase 3 program includes four randomized, double-blinded, placebo controlled studies across two subpopulations, which are designed to total approximately 4,000 patients with mild to moderate AD at approximately 350 sites. The treatment duration for each patient is 18 months with patients to be equally distributed between North America and the rest of the world. The studies stratify patients by ApoE4 genotype, and all studies have co-primary efficacy end points—one cognitive and one functional.

Two Phase 2 studies of bapineuzumab remain ongoing and are expected to be completed in 2008. Both studies are randomized, double-blind, placebo-controlled, multiple ascending dose studies with four dose cohorts. The main Phase 2 study enrolled approximately 240 patients, and the other enrolled approximately 30 patients and included a beta amyloid imaging component. Both studies are being conducted in patients with mild to moderate Alzheimer's disease. The patients are being followed for 18 months. Data from the Phase 1 clinical study presented in 2006

showed a statistically significant improvement, compared to placebo, on a key measure of cognitive function: the Mini-Mental State Examination.

In addition to the intravenous formulation of bapineuzumab, a subcutaneous formulation of this antibody is in Phase 1 clinical trials, and AAB-002, a back-up compound to bapineuzumab, is in the preclinical phase.

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ACC-001 (Active Immunotherapeutic Conjugate) with Wyeth

ACC-001 is a novel beta amyloid immunoconjugate that leverages the innovative conjugate technology that Wyeth has used in some of its vaccine products. ACC-001 has also been granted fast track designation by the FDA and is in Phase 2 clinical trials. The ACC-001 approach is intended to induce a highly specific antibody response to beta amyloid. The goal is to clear beta amyloid while minimizing side effects such as inflammation of the central nervous system.

ELND005 with Transition

In 2006, we entered into an exclusive, worldwide collaboration with Transition for the joint development and commercialization of a novel therapeutic agent for Alzheimer's disease.

The molecule, ELND005, is a beta-amyloid anti-aggregate that has been granted fast track designation by the FDA. Based upon preclinical data, by blocking the aggregation of beta amyloid, clearance of amyloid occurs and plaque build up is prevented. Daily oral treatment with this compound has been shown to prevent cognitive decline in a transgenic mouse model of Alzheimer's disease, with reduced amyloid plaque load in the brain and increased survival rate of these animals.

In December 2007, Elan and Transition announced that the first patient had been dosed in a Phase 2 clinical study. This study is a randomized, double-blind, placebo-controlled, dose-ranging study which evaluates the safety and efficacy of ELND005 in approximately 340 patients with mild to moderate Alzheimer's disease. The patients are being followed for 18 months.

In 2007, it was also announced that multiple Phase 1 clinical studies had been completed that further evaluated the safety, tolerability and pharmacokinetic profile of this compound. ELND005 was found to be safe and well-tolerated at all doses and dosing regimens examined. No severe or serious adverse events were observed. ELND005 was also shown to be orally bioavailable, cross the blood-brain barrier and achieve levels in the brain and cerebral spinal fluid shown to be effective in animal models of Alzheimer's disease.

Secretase Inhibitors: Beta and Gamma

Beta and gamma secretases are proteases (enzymes that break down other proteins) that appear to clip the APP, resulting in the formation of beta amyloid. This is significant because if the clipping of APP could be prevented, the pathology of Alzheimer's disease may be changed. We have been at the forefront of research in this area, publishing extensively since 1989, and have developed and are pursuing advanced discovery programs focused on molecule inhibitors of beta and gamma secretases.

Beta Secretase

Beta secretase is believed to initiate the first step in the formation of beta amyloid, the precursor to plaque development in the brain. Our findings concerning the role beta secretase plays in beta amyloid production, published in *Nature* in 1999, are considered a landmark discovery. Today, we continue to be at the center of understanding the complexities of beta secretase. Our ongoing preclinical drug discovery efforts in this area focus on inhibiting beta secretase and its role in the progression of Alzheimer's disease pathology.

Gamma Secretase

Gamma secretase is an unusual multi-protein complex that is thought to play a significant role in the formation of beta amyloid. We have played a critical leadership role in the increased awareness of how gamma secretase may affect Alzheimer's disease pathology. Our finding, published in the *Journal of Neurochemistry* in 2001, that functional gamma secretase inhibitors appear to reduce beta amyloid levels in the brain, was an important step in this area of Alzheimer's disease research. We continue to progress our gamma secretase discovery program.

In addition to internal programs, we retain certain rights to an Eli Lilly and Company (Lilly) LY 450139 compound, which arose from a collaborative research between the two companies that began in 1988 and ended in 1998. In January 2008, Lilly announced that it has commenced preparatory work for Phase 3 trials for LY 450139

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for mild to moderate AD patients, with estimated enrollment of 1,500 patients. Each patient's participation is expected to last approximately two years.

PARKINSON'S DISEASE

About Parkinson's Disease

Parkinson's disease is a progressive degenerative neurologic movement disorder that destroys nerve cells in the part of the brain responsible for muscle control and movement. This creates problems walking, maintaining balance and coordination in patients diagnosed with the disease. It is estimated that 1.5 million Americans currently have Parkinson's disease, with 60,000 new cases diagnosed each year. The condition usually develops after the age of 65, but an estimated 15% of sufferers are diagnosed before the age of 50.

Elan's Parkinson's Research

Parkinson's disease is believed to be a result of misfolded proteins in the brain. Parkinson's disease is characterized by the accumulation of aggregated alpha-synuclein, or Lewy bodies, in degenerating neurons in particular regions of the brain.

Elan's early discovery efforts in Parkinson's disease were guided by our expertise and leadership in Alzheimer's disease research. Our scientists have made significant scientific progress to date in identifying unusual modified forms of alpha-synuclein in human Parkinson's disease brain tissue. These unique forms have led us to a series of therapeutic targets that will be a focus of our small and large molecule drug discovery efforts over the next few years.

Our scientists are also studying parkin, a protein found in the brain that has been genetically linked to Parkinson's disease. Parkin may be involved in the elimination of misfolded proteins within neurons. Some familial forms of Parkinson's disease have been linked to mutations in parkin, and we are actively studying the relationship between parkin activity and neurodegeneration. This research is in the drug discovery stage.

MULTIPLE SCLEROSIS

In autoimmune diseases such as MS and CD, the immune system mistakenly targets the cells, tissues and organs of a person's body, generally causing inflammation. Inflammation is a response of body tissues to trauma, infection, chemical or physical injury, allergic reaction or other factors. It is usually characterized by a collection of cells and molecules at a target site. Different autoimmune diseases affect the body in different ways. For example, in MS, the autoimmune reaction is directed against the brain, and in Crohn's disease, it is directed against the gastrointestinal tract. Autoimmune diseases are often chronic, affecting millions of people and requiring life-long care. Most autoimmune diseases cannot currently be reversed or cured.

Alpha 4 Integrin and Tysabri

Our therapeutic strategy for treating autoimmune diseases is to identify mechanisms common to autoimmune diseases and develop novel therapeutics that stop the underlying causes of disease. Alpha 4 integrin is a protein expressed by immune cells that allows those cells to leave the bloodstream and invade target tissues. Blocking alpha 4 integrin stops immune cells from entering tissues.

Tysabri is an alpha 4 integrin antagonist. *Tysabri* is designed to inhibit immune cells from leaving the bloodstream and to prevent these immune cells from migrating into chronically inflamed tissue where they may cause or maintain inflammation. *Tysabri* was developed and is now being commercialized by Elan in collaboration with Biogen Idec.

Tysabri for the Treatment of Multiple Sclerosis

In June 2006, the FDA approved the reintroduction of *Tysabri* as a monotherapy to treat relapsing forms of MS. Approval for the marketing of *Tysabri* in the European Union was also received in June 2006. The distribution of *Tysabri* in both the United States and European Union commenced in July 2006. *Tysabri* currently is approved in

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more than 30 countries worldwide, including the United States, the countries of the European Union, Switzerland, Canada, Australia, New Zealand and Israel.

In the United States, Europe and the ROW, provisions are in place to ensure patients are informed of the risks associated with *Tysabri* therapy, including PML, and to enhance collection of post-marketing data on the safety and utilization of *Tysabri* for MS. PML is an opportunistic viral infection of the brain that usually leads to death or severe disability. Three cases of PML were detected in clinical trials with *Tysabri* among patients who were also taking other therapies, leading to a temporary marketing suspension of the product in the United States in February 2005.

As of late December 2007, there were approximately 21,100 patients receiving *Tysabri* in either clinical or commercial settings, with 12,900 patients on *Tysabri* in the U.S. commercial setting, 7,500 on *Tysabri* outside of the United States in the commercial setting, and 700 patients in global clinical trials. The safety data to date continue to support a favorable benefit-risk profile for *Tysabri*. There have been no new reports of confirmed cases of PML since the U.S. reintroduction and EU launch in July 2006. Global in-market net sales of *Tysabri* totaled \$342.9 million for 2007 (2006: \$38.1 million), with global net revenue reported by Elan of \$231.7 million for 2007 (2006: \$17.5 million).

CROHN S DISEASE AND OTHER AUTOIMMUNE DISEASES

About Crohn s Disease

An estimated 500,000 people in the United States have Crohn s disease, a chronic and progressive inflammatory disease of the gastrointestinal tract that commonly affects both men and women. Approximately 170,000 patients suffer from moderate to severe forms of the disease.

The disease usually causes diarrhea and crampy abdominal pain, often associated with fever and, at times, rectal bleeding. Loss of appetite and weight loss also may occur. Complications include narrowing of the intestine, obstruction, abscesses, fistulas (abnormal channels connecting the intestine and other organs, including the skin) and malnutrition. Most patients eventually require surgery, which has both risks and potential short- and long-term complications.

Crohn s disease can have a devastating impact on the lifestyle of patients, many of whom are young and active. Currently, there is no medical or surgical cure for CD. Many patients fail to respond to current therapies, including biological therapies such as agents that inhibit tumor necrosis factor alpha (TNF-alpha). Due to this failure of current therapies in CD, therapies that have alternate biological targets provide patients and physicians with therapeutic options.

Tysabri for the Treatment of Crohn s Disease

We evaluated *Tysabri* as a treatment for CD in collaboration with Biogen Idec. The safety and efficacy of *Tysabri* as both an induction and maintenance therapy were evaluated in 11 clinical studies, including three pivotal, randomized, double-blind, placebo-controlled, multi-center trials.

On January 14, 2008, the FDA approved the supplemental Biologics License Application (sBLA) for *Tysabri*, for inducing and maintaining clinical response and remission in adult patients with moderately to severely active CD, with evidence of inflammation, who have had an inadequate response to, or are unable to tolerate, conventional CD therapies and inhibitors of TNF-alpha.

In January 2008, we were notified by the European Commission that it had denied marketing authorization of *Tysabri* as a treatment of Crohn's disease.

Other Indications for Tysabri

Elan and Biogen Idec continue to explore additional indications for *Tysabri*, including oncology and ulcerative colitis. An Investigational New Drug (IND) application was filed for *Tysabri* for multiple myeloma in 2007 and a proof of concept study is planned for the first half of 2008.

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Other Autoimmune Diseases Research & Development

Our ongoing research in autoimmune diseases is primarily based on cell trafficking and focuses on discovering disease-modifying approaches to treating a wide range of autoimmune diseases, including MS and CD. *Tysabri* emerged from this research program. In 2007, we continued our research exploring novel anti-inflammatory approaches through our collaboration with Archemix Corp. (Archemix) in addition to our core alpha 4 integrin programs.

Since first publishing the hypothesis concerning the therapeutic potential of blocking alpha 4 integrin in 1992, our scientists have been expanding and refining our understanding of how cells enter tissues. Through this deep understanding, we have developed small molecules that can selectively block particular alpha 4 integrin interactions. We have advanced two compounds in this area, with ELND002 currently in Phase 1 and ELND004 expected to enter Phase 1 in the first half of 2008.

SEVERE CHRONIC PAIN

Our commercial activities related to meeting the needs of pain specialists addressing severe chronic pain involve *Prialt*, a new type of therapy for patients that we launched in the United States in January 2005.

Prialt

On December 28, 2004, the FDA approved *Prialt* for the management of severe chronic pain in patients for whom intrathecal therapy (IT) is warranted, and who are intolerant of or refractory to other treatments, such as systemic analgesics, adjunctive therapies or intrathecal morphine. *Prialt* is approved for use only in the Medtronic SynchroMed® EL, SynchroMed® II Infusion System and CADD-Micro® ambulatory infusion pump.

Prialt is administered through appropriate programmable microinfusion pumps that can be implanted or external and that release the drug into the fluid surrounding the spinal cord. *Prialt* is in a class of non-opioid analgesics known as N-type calcium channel blockers. It is a synthetic equivalent of a naturally occurring conopeptide found in a marine snail known as *Conus magus*. Research suggests that the novel mechanism of action of *Prialt* works by targeting and blocking N-type calcium channels on nerves that ordinarily transmit pain signals.

Prialt has been evaluated as an IT infusion in more than 1,200 patients participating in chronic pain trials. The longest treatment duration to date is more than eight years. This combined number of patients represents the largest IT analgesic safety database ever compiled for any IT treatment. *Prialt* is used in a variety of severe chronic pain patients, including patients with failed back surgery, complex regional pain syndrome, cancer, AIDS and other non-malignant causes.

In January 2005, we launched *Prialt* in the United States. We believe *Prialt* represents an important therapeutic option addressing an unmet need and that it has the potential for significant patient impact in the area of severe neuropathic pain. In October 2007, the revised Polyanalgesic Consensus Guidelines were published and recommended *Prialt* as a first-line alternative to morphine and hydromorphone for the IT infusion treatment of severe chronic pain. Revenue from sales of *Prialt* totaled \$12.3 million for 2007 (2006: \$12.1 million).

In March 2006, we sold the *Prialt* European rights to Eisai.

MAXIPIME AND AZACTAM

Severe bacterial infections remain a major medical concern. We distribute two products that treat severe bacterial infections, each designed to address medical needs within the hospital environment.

Maxipime

We licensed the U.S. marketing rights to *Maxipime* from Bristol-Myers Squibb Company (Bristol-Myers) in January 1999. *Maxipime* is a fourth-generation injectable cephalosporin antibiotic used to treat patients with serious and/or life-threatening infections. Revenue from sales of *Maxipime* totaled \$122.5 million for 2007 (2006: \$159.9 million). The basic U.S. patent on *Maxipime* expired in March 2007. On June 18, 2007, the first generic formulation of cefepime hydrochloride was approved by the FDA. Generic cefepime hydrochloride has, and we

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expect it will continue to, materially and adversely affect our revenues from, and gross margin for, *Maxipime*. While *Maxipime* is available through distributors, we no longer promote this product.

Azactam

We licensed the U.S. marketing rights to this injectable antibiotic from Bristol-Myers in January 1999. *Azactam* is a monobactam and is principally used by surgeons, infectious disease specialists and internal medicine physicians to treat pneumonia, post-surgical infections and septicemia. *Azactam* is often used in these infections for patients who have a known or suspected penicillin allergy. Revenue from sales of *Azactam* totaled \$86.3 million for 2007 (2006: \$77.9 million). The basic U.S. patent on *Azactam* expired in October 2005. No generic *Azactam* product has been approved to date. While *Azactam* is available through distributors, we no longer promote this product.

Please refer to Item 5.A. Operating Results for additional information concerning our revenue by category for 2007, 2006 and 2005.

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Table of Contents*ELAN DRUG TECHNOLOGIES*

EDT is an established, profitable and growing specialty pharmaceutical business unit of Elan. For nearly 40 years, EDT has been applying its skills and knowledge to enhance the performance of dozens of drugs that have been marketed worldwide. Today, products enabled by EDT technologies are used by millions of patients each day.

EDT is focused on using its extensive experience, proprietary drug delivery technologies and licensing capabilities to develop innovative products that deliver clinically meaningful benefits to patients. EDT's product development capabilities span formulation development, clinical trial management, analytical development, clinical trial material manufacturing, product scale-up, product registration and commercial manufacturing.

EDT has manufacturing and research facilities in the United States and Ireland.

EDT generated \$295.5 million in revenue in 2007, and an operating profit of \$85.2 million. EDT generates revenue from two sources: from royalties and manufacturing fees from licensed products, and from contract revenues relating to R&D services, license fees and milestones.

Typically, EDT receives royalties in the single digit range as well as manufacturing fees based on cost plus arrangements where appropriate. More recently, EDT has brought product concepts to a later stage of development before out-licensing and as a result has been able to retain an increasing proportion of the economics. There are currently 22 products marketed by EDT licensees, with eight of these having been launched since 2001. EDT has a broad pipeline, with 17 products in clinical development, including three filed, four in Phase 3, five in Phase 2 and five in Phase 1. These marketed and pipeline products and EDT's technologies are protected by an extensive intellectual property portfolio, with approximately 1,700 patents and patent applications.

Marketed Products

22 products that incorporate EDT technologies are currently marketed by EDT licensees, and on which EDT receives royalties and in some cases manufacturing fees, including:

Licensee	Product	Indication
Abbott Laboratories	TriCor [®]	Cholesterol
Merck & Co., Inc.	Emend [®]	Nausea post chemo
Novartis AG	Focalin [®] /Ritalin [®]	ADHD ⁽¹⁾
Wyeth	Rapamune [®]	Anti-Rejection
Victory Pharma	Naprelan [®]	NSAID ⁽²⁾ Pain
King Pharmaceuticals, Inc.	Avinza [®]	Chronic pain
Par Pharmaceutical Co., Inc.	Megace [®] ES	Cachexia
Acorda Therapeutics, Inc.	Zanaflex [®]	Muscle spasticity

⁽¹⁾ Attention Deficit Hyperactivity Disorder

⁽²⁾ Non-Steroidal Anti-Inflammatory Drug

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Product Pipeline

EDT's current pipeline spans a range of therapeutic classes, routes of administration and licensee profiles, as outlined below. In addition, EDT has a large number of projects at the preclinical or formulation development stage.

Technologies

NanoCrystal® Technology

EDT's proprietary *NanoCrystal* technology is a drug optimization technology applicable to many poorly water-soluble compounds. It is an enabling technology for evaluating new chemical entities exhibiting poor water-solubility and a tool for optimizing the performance of established drugs. *NanoCrystal* technology involves reducing crystalline drugs to particles under 400 nanometers in size. By reducing particle size, the exposed surface area of the drug is increased and then stabilized to maintain particle size. The drug in *NanoCrystal* form can be incorporated into common dosage forms, including tablets, capsules, inhalation devices, and sterile forms for injection, with the potential for substantial improvements to clinical performance.

The potential benefits of applying the *NanoCrystal* technology for existing and new products include:

- Enhancing oral bioavailability;
- Increased therapeutic effectiveness;
- Reducing/eliminating fed/fasted variability;
- Optimizing delivery; and
- Increased absorption.

EDT's *NanoCrystal* technology has now been incorporated into 4 commercialized products, with more than 30 other compounds at various stages of development.

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Oral Controlled-Release (OCR) Technologies

OCR technologies provide significant benefits in developing innovative products that provide meaningful clinical benefits to patients. EDT has developed a range of OCR technologies, which it applies to help overcome many of the technical difficulties that have been encountered in developing oral controlled-release products. Oral controlled-release products are often difficult to formulate, develop and manufacture. As a result, significant experience, expertise and know-how are required to successfully develop such products.

EDT's OCR technologies are focused on using advanced drug delivery technology and its manufacturing expertise to formulate, develop and manufacture controlled-release, oral dosage form pharmaceutical products that improve the release characteristics and efficacy of active drug agents, and also provide improved patient convenience and compliance. The drug delivery technologies employed, coupled with its manufacturing expertise, enable EDT to cost-effectively develop value-added products and to enhance product positioning.

EDT's suite of OCR technologies has been incorporated into many commercialized products. EDT's OCR technology platform allows a range of release profiles and dosage forms to be engineered. Customized release profiles for oral dosage forms such as extended release, delayed release and pulsatile release have all been successfully developed and commercialized.

EDT's Business Strategy

EDT's business strategy is focused on profitably growing its business as a specialty pharmaceutical business unit of Elan, underpinned by its product development capabilities and drug delivery technologies. In the near to medium term, EDT will continue to drive growth through its existing approved licensed products and pipeline of 17 products in clinical development. In addition, EDT will seek to generate new pipeline opportunities by entering into further licensing arrangements with pharmaceutical companies, and identifying and developing proprietary products as EDT evolves its specialty pharmaceutical business model.

EDT's strategy, based on its comprehensive product development and proprietary technology platforms, involves two complementary elements:

Selectively developing product candidates based on its proprietary technologies (Proprietary Product Candidates or PPCs) where EDT originates the product concept and ultimately develops the product to a later stage of development prior to out-licensing or making a decision to continue development itself, with a view to ultimately marketing the product by itself or in co-promotion with a marketing partner; and

Working with pharmaceutical companies to develop products through the application of EDT technologies to their pipeline and marketed products.

Development of PPCs involves lower risk, reduced costs and faster development timelines compared to traditional new chemical entity drug development. PPCs are based on existing drugs with known safety and efficacy profiles.

EDT intends to implement its strategies in the following manner:

1. Progress EDT's existing pipeline to generate future revenues and value;
2. Continue to build and develop EDT's product pipeline;
- 3.

Capture an increasing share of revenues on products being developed by EDT through the evolution of its specialty pharmaceutical business strategy;

4. Continue to maintain EDT's position as a leading provider of drug optimization solutions to pharmaceutical and biotechnology licensees; and

5. Enhance and expand its technologies, products and capabilities.

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ENVIRONMENT

The U.S. market is our most important market. Refer to Note 30 to the Consolidated Financial Statements for an analysis of revenue by geographic region. For this reason, the factors discussed below, such as Government Regulation and Product Approval, place emphasis on requirements in the United States.

Government Regulation

The pharmaceutical industry is subject to significant regulation by international, national, state and local governmental regulatory agencies. Pharmaceutical product registration is primarily concerned with the safety, efficacy and quality of new drugs and devices and, in some countries, their pricing. A product must generally undergo extensive clinical trials before it can be approved for marketing. The process of developing a new pharmaceutical product, from idea to commercialization, can take in excess of 10 years.

Governmental authorities, including the FDA and comparable regulatory authorities in other countries, regulate the design, development, testing, manufacturing and marketing of pharmaceutical products. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions, including product seizures, import restrictions, injunctive actions and criminal prosecutions. In addition, administrative remedies can involve requests to recall violative products; the refusal of the government to enter into supply contracts; or the refusal to approve pending product approval applications for drugs, biological products or medical devices until manufacturing or other alleged deficiencies are brought into compliance. The FDA also has the authority to cause the withdrawal of approval of a marketed product or to impose labeling restrictions.

In addition, the U.S. Centers for Disease Control and Prevention regulate select biologics and toxins. This includes registration and inspection of facilities involved in the transfer or receipt of select agents. Select agents are subject to specific regulations for packaging, labeling and transport. Non-compliance with applicable requirements could result in criminal penalties and the disallowance of research and manufacturing of clinical products. Exemptions are provided for select agents used for a legitimate medical purpose or for biomedical research, such as toxins for medical use and vaccines.

The pricing of pharmaceutical products is regulated in many countries and the mechanism of price regulation varies. In the United States, while there are limited indirect federal government price controls over private sector purchases of drugs, it is not possible to predict future regulatory action on the pricing of pharmaceutical products.

In June 2001, we received a letter from the Federal Trade Commission (FTC) stating that the FTC was conducting a non-public investigation to determine whether Brightstone Pharma, Inc. (Brightstone), Elan Corporation, plc or others may have engaged in an effort to restrain trade by entering into an agreement that may restrict the ability of Brightstone or others to market a bioequivalent or generic version of *Naprelan*. In October 2001, our counsel met informally with the FTC staff to discuss the matter. No further communication from the FTC was received until December 2002, when we were served with a *subpoena duces tecum* from the FTC for the production of documents related to *Naprelan*. We have voluntarily provided documents and witness testimony in response to the subpoena and continue to cooperate with the FTC relating to this investigation. We do not believe that it is feasible to predict or determine the outcome of the investigation and any possible effect on our business, or to reasonably estimate the amounts or potential range of loss, if any, with respect to the resolution of the investigation.

In January 2006, we received a subpoena from the U.S. Department of Justice and the Department of Health and Human Services, Office of Inspector General, asking for documents and materials primarily related to our marketing practices for Zonegran. In April 2004, we completed the sale of our interests in Zonegran in North America and Europe to Eisai. We are cooperating with the government in its investigation. The resolution of this Zonegran matter

could require Elan to pay substantial fines and to take other actions that could have a material adverse effect on Elan. In April 2006, Eisai delivered to Elan a notice making a contractual claim for indemnification in connection with a similar subpoena received by Eisai.

Product Approval

Preclinical tests assess the potential safety and efficacy of a product candidate in animal models. The results of these studies must be submitted to the FDA as part of an IND before human testing may proceed.

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The clinical trial process can take three to 10 years or more to complete, and there can be no assurance that the data collected will demonstrate that the product is safe or effective, or, in the case of a biologic product, pure and potent, or will provide sufficient data to support FDA approval of the product. The FDA may place clinical trials on hold at any point in this process if, among other reasons, it concludes that clinical subjects are being exposed to an unacceptable health risk. Trials may also be terminated by institutional review boards, which must review and approve all research involving human subjects. Side effects or adverse events that are reported during clinical trials can delay, impede or prevent marketing authorization.

The results of the preclinical and clinical testing, along with information regarding the manufacturing of the product and proposed product labeling, are evaluated and, if determined appropriate, submitted to the FDA through a license application such as a New Drug Application (NDA) or a Biologics License Application (BLA). In certain cases an Abbreviated New Drug Application (ANDA) can be filed in lieu of filing an NDA.

There can be no marketing in the United States of any drug, biologic or device for which a marketing application is required until the application is approved by the FDA. Until an application is actually approved, there can be no assurance that the information requested and submitted will be considered adequate by the FDA. Additionally, any significant change in the approved product or in how it is manufactured, including changes in formulation or the site of manufacture, generally require prior FDA approval. The packaging and labeling of all products developed by us are also subject to FDA approval and ongoing regulation.

Whether or not FDA approval has been obtained, approval of a pharmaceutical product by comparable regulatory authorities in other countries outside the United States must be obtained prior to the marketing of the product in those countries. The approval procedure varies from country to country. It can involve additional testing and the time required can differ from that required for FDA approval. Although there are procedures for unified filings for EU countries, in general, most other countries have their own procedures and requirements.

Once a product has been approved, significant legal and regulatory requirements apply in order to market a product. In the United States these include, among other things, requirements related to adverse event and other reporting, product advertising and promotion, and ongoing adherence to cGMP requirements, as well as the need to submit appropriate new or supplemental applications and obtain FDA approval for certain changes to the approved product, product labeling or manufacturing process.

The FDA also enforces the requirements of the Prescription Drug Marketing Act, which, among other things, imposes various requirements in connection with the distribution of product samples to physicians. Sales, marketing and scientific/educational grant programs must comply with the Medicare-Medicaid Anti-Fraud and Abuse Act, as amended, the False Claims Act, as amended, and similar state laws. Pricing and rebate programs must comply with the Medicaid rebate requirements of the Omnibus Budget Reconciliation Act of 1990, as amended.

Manufacturing

Each manufacturing establishment, including any contract manufacturers, used to manufacture a product must be listed in the product application for such product. In the United States, this means that each manufacturing establishment must be listed in the drug, biologic, or device application, and must be registered with the FDA. The application will not be approved until the FDA conducts a manufacturing inspection, approves the applicable manufacturing process for the product, and determines that the facility is in compliance with cGMP requirements.

At December 31, 2007, we employed 547 people in our manufacturing and supply activities, over half of these in Athlone, Ireland. This facility is our primary location for the manufacture of oral solid dosage products, including instant, controlled-release and oral nano particulate products. Additional dosage capabilities may be added as required

to support future product introductions. Our facility in Gainesville, Georgia, United States, provides additional oral controlled-release dosage product manufacturing capability and is registered with the U.S. Drug Enforcement Administration for the manufacture, packaging and distribution of Schedule II controlled drugs.

We may invest a significant amount into building a biologics manufacturing facility in Ireland.

All facilities and manufacturing techniques used for the manufacture of products and devices for clinical use or for sale in the United States must be operated in conformity with cGMP regulations. There are FDA regulations

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governing the production of pharmaceutical products. Our facilities are also subject to periodic regulatory inspections to ensure ongoing compliance with cGMP regulations.

Patents and Intellectual Property Rights

Our competitive position depends on our ability to obtain patents on our technologies and products, to defend our patents, to protect our trade secrets and to operate without infringing the valid patents or trade secrets of others. We own or license a number of patents in the United States and other countries.

These patents cover, for example:

Pharmaceutical active ingredients, products containing them and their uses;

Pharmaceutical formulations; and

Product manufacturing processes.

Tysabri is covered by a number of issued patents and pending patent applications in the United States and many other countries. We have a basic U.S. patent, which expires in 2017, for *Tysabri* covering the humanized antibody and its use to treat MS. Additional U.S. patents and patent applications of Elan and/or our collaborator, Biogen Idec, which cover: (i) the use of *Tysabri* to treat irritable bowel disease and a variety of other indications and (ii) methods of manufacturing *Tysabri*, generally expire between 2012 and 2020. Outside the United States, patents and patent applications on the product and methods of manufacturing the product generally expire between 2014 and 2020, and may be subject to additional patent protection until 2020 in the nature of Supplementary Protection Certificates. International patents and patent applications covering methods of treatment using *Tysabri* would generally expire between 2012 to 2020.

In addition to our *Tysabri* collaboration with Biogen Idec, we have entered into licenses covering intellectual property related to *Tysabri*. We will pay royalties under these licenses based upon the level of *Tysabri* sales. We may be required to enter into additional licenses related to *Tysabri* intellectual property. If these licenses are not available, or are not available on reasonable terms, we may be materially and adversely affected.

The fundamental U.S. patent covering the use of *Prialt* to produce analgesia expires in 2016. A further U.S. patent covering the stabilized formulation of *Prialt* expires in 2015.

The basic U.S. patent for *Maxipime* expired in March 2007. An ANDA for a generic version of cefepime hydrochloride was approved by the FDA on June 18, 2007 and marketing of the generic product began immediately thereafter. Following this introduction of generic cefepime to the market, our revenues from, and gross margin for, *Maxipime* were materially and adversely affected.

The basic U.S. patent for *Azactam* expired in October 2005. *Azactam* is expected to face generic competition, which is expected to have a substantial adverse effect on our revenues from, and gross margin for, this product.

The primary patents covering Elan's *NanoCrystal* technology expire in the United States in 2011 and in some countries outside the United States in 2012. We also have numerous U.S. and international patents and patent applications that relate to our *NanoCrystal* drug optimization technology applicable to poorly water-soluble compounds.

In addition, we have a robust patent estate resulting from our Alzheimer's disease research.

Competition

The pharmaceutical industry is highly competitive. Our principal pharmaceutical competitors consist of major international companies, many of which are larger and have greater financial resources, technical staff, manufacturing, R&D and marketing capabilities than we have. We also compete with smaller research companies and generic drug manufacturers.

Tysabri, a treatment for relapsing forms of MS, competes primarily with Avonex[®] marketed by our collaborator Biogen Idec, Betaseron[®] marketed by Berlex (an affiliate of Bayer Schering Pharma AG) in the United States and sold under the name Betaferon[®] by Bayer Schering Pharma in Europe, Rebif[®] marketed by Merck Serono and

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Pfizer Inc. (Pfizer) in the United States and by Merck Serono in Europe, and Copaxone® marketed by Teva Neurosciences, Inc. (Teva) in the United States and co-promoted by Teva and Sanofi-Aventis in Europe. Many companies are working to develop new therapies or alternative formulations of products for MS, which if successfully developed would compete with *Tysabri*.

A drug may be subject to competition from alternative therapies during the period of patent protection or regulatory exclusivity and, thereafter, it may be subject to further competition from generic products. Our product *Azactam* lost its basic U.S. patent protection in October 2005, and the basic U.S. patent for *Maxipime* expired in March 2007.

Generic competitors have challenged existing patent protection for some of the products from which we earn manufacturing or royalty revenue. If these challenges are successful, our manufacturing and royalty revenue will be materially and adversely affected.

Governmental and other pressures toward the dispensing of generic products may rapidly and significantly reduce, slow or reverse the growth in, sales and profitability of any of our products not protected by patents or regulatory exclusivity, and may adversely affect our future results and financial condition. The launch of competitive products, including generic versions of our products, has had and may have a material adverse effect on our revenues and results of operations.

Our competitive position depends, in part, upon our continuing ability to discover, acquire and develop innovative, cost-effective new products, as well as new indications and product improvements protected by patents and other intellectual property rights. We also compete on the basis of price and product differentiation and through our sales and marketing organization that provides information to medical professionals and launches new products. If we fail to maintain our competitive position, our business, financial condition and results of operations may be materially adversely affected.

Distribution

We sell our pharmaceutical products primarily to drug wholesalers. Our revenue reflects the demand from these wholesalers to meet the in-market consumption of our products and to reflect the level of inventory that wholesalers of our products carry. Changes in the level of inventory can directly impact our revenue and could result in our revenue not reflecting in-market consumption of our products.

We often manufacture our drug delivery products for licensees and distributors but do not usually engage in any direct sales of drug delivery products.

Raw Materials and Product Supply

Raw materials and supplies are generally available in quantities adequate to meet the needs of our business. We are dependent on third-party manufacturers for the pharmaceutical products that we market. An inability to obtain raw materials or product supply could have a material adverse impact on our business, financial condition and results of operations.

Employees

On December 31, 2007, we had 1,610 employees worldwide, of whom 553 were engaged in R&D activities, 547 were engaged in manufacturing and supply activities, 211 were engaged in sales and marketing activities and the remainder worked in general and administrative areas.

Table of Contents**C. Organizational Structure**

At December 31, 2007, we had the following principal subsidiary undertakings:

Company	Nature of Business	Group Share %	Registered Office & Country of Incorporation
Athena Neurosciences, Inc.	Holding company	100	800 Gateway Blvd. South San Francisco, CA, United States
Elan Drug Delivery, Inc.	R&D	100	3000 Horizon Drive King of Prussia, PA, United States
Elan Finance plc	Financial services company	100	Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland
Elan Holdings, Inc.	Manufacture of pharmaceutical and medical device products	100	1300 Gould Drive Gainesville, GA, United States
Elan Holdings Ltd.	Holding company	100	Monksland, Athlone Co. Westmeath, Ireland
Elan International Services Ltd.	Financial services company	100	Clarendon House, 2 Church Street Hamilton, Bermuda
Elan Management Ltd.	Provision of management services	100	Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland
Elan Pharma International Ltd.	R&D, manufacture, sale and distribution of pharmaceutical products and financial services	100	Monksland, Athlone Co. Westmeath, Ireland
Elan Pharmaceuticals, Inc.	R&D and sale of pharmaceutical products	100	800 Gateway Blvd. South San Francisco, CA, United States
Monksland Holding BV	Financial services company	100	Claude Debussylaan 1082MD Amsterdam The Netherlands

D. Property, Plant and Equipment

We consider that our properties are in good operating condition and that our machinery and equipment has been well maintained. Facilities for the manufacture of products are suitable for their intended purposes and have capacities adequate for current and projected needs.

For additional information, refer to Note 14 to the Consolidated Financial Statements, which discloses amounts invested in land and buildings and plant and equipment; Note 22 to the Consolidated Financial Statements, which discloses future minimum rental commitments; Note 26 to the Consolidated Financial Statements, which discloses capital commitments for the purchase of property, plant and equipment; and Item 5.B. Liquidity and Capital

Resources, which discloses our capital expenditures.

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The following table lists the location, ownership interest, use and approximate size of our principal properties:

Location and Ownership Interest	Use	Size (Sq. Ft.)
Owned: Athlone, Ireland	R&D, manufacturing and administration	463,000
Owned: Gainesville, Georgia, United States	R&D, manufacturing and administration	89,000
Leased: South San Francisco, California, United States	R&D, sales and administration	257,000 ⁽¹⁾⁽²⁾
Leased: King of Prussia, Pennsylvania, United States	R&D, manufacturing, sales and administration	113,000
Leased: Dublin, Ireland	Corporate administration	20,000
Leased: New York City, New York, United States	Corporate administration	14,000

⁽¹⁾ *In June and December 2007, we entered into lease agreements for two additional buildings in South San Francisco, which are currently under construction. The square footage for the first building will be approximately 109,000 square feet and for the second building approximately 83,000 square feet, which are not included in the 257,000 square feet noted above. The lease term for the first building is expected to commence in the first quarter of 2009 and the second in the first quarter of 2010. The buildings will be utilized for our R&D, sales and administrative functions.*

⁽²⁾ *Approximately 43,000 square feet of the 257,000 square feet currently occupied are related to short-term leases that we expect to vacate once the two additional buildings are constructed.*

Item 4A. Unresolved Staff Comments.

Not applicable.

Item 5. Operating and Financial Review and Prospects.

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements, the accompanying notes thereto and other financial information, appearing in Item 18. Consolidated Financial Statements.

Our Consolidated Financial Statements contained in this Form 20-F have been prepared on the basis of U.S. GAAP. In addition to the Consolidated Financial Statements contained in this Form 20-F, we also prepare separate Consolidated Financial Statements, included in our Annual Report, in accordance with IFRS, which differ in certain significant respects from U.S. GAAP. The Annual Report under IFRS is a separate document from this Form 20-F.

This financial review primarily discusses:

Current operations;

Critical accounting policies;

Recently issued accounting pronouncements;

Post balance sheet events;

Results of operations for the year ended December 31, 2007 compared to 2006 and 2005;

Segment analysis; and

Our financial position, including capitalization and liquidity.

Our operating results may be affected by a number of factors, including those described under Item 3.D. Risk Factors.

CURRENT OPERATIONS

Our business is organized into two business units: Biopharmaceuticals and EDT. Biopharmaceuticals engages in research, development and commercial activities primarily in Alzheimer's disease, Parkinson's disease, multiple sclerosis, Crohn's disease, severe chronic pain and infectious diseases. EDT is an established, profitable and

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growing specialty pharmaceutical business unit of Elan. For nearly 40 years, EDT has been applying its skills and knowledge to enhance the performance of dozens of drugs that have been marketed worldwide. For additional information on our current operations, please refer to Item 4.B. Business Overview.

CRITICAL ACCOUNTING POLICIES

The Consolidated Financial Statements include certain estimates based on management's best judgments. Estimates are used in determining items such as the carrying values of intangible assets and tangible fixed assets, the fair value of share-based compensation, revenue recognition, the accounting for contingencies and estimating sales rebates and discounts, among other items. Because of the uncertainties inherent in such estimates, actual results may differ materially from these estimates.

Goodwill, Other Intangible Assets, Tangible Fixed Assets and Impairment

Total goodwill and other intangible assets amounted to \$457.6 million at December 31, 2007 (2006: \$582.2 million). We account for goodwill and identifiable intangible assets in accordance with the Financial Accounting Standards Board's (FASB) Statement No. 142, Goodwill and Other Intangible Assets, (SFAS 142). Pursuant to SFAS 142, goodwill and identifiable intangible assets with indefinite useful lives are no longer amortized, but instead are tested for impairment at least annually. At December 31, 2007, we had no other intangible assets with indefinite lives.

Intangible assets with estimable useful lives are amortized on a straight-line basis over their respective estimated useful lives to their estimated residual values and, as with other long-lived assets such as tangible fixed assets, are reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. We determine fair value using the income approach based on estimated discounted cash flows. Our cash flow assumptions consider historical and forecasted revenue and operating costs and other relevant factors. If we were to use different estimates, particularly with respect to the likelihood of R&D success, the likelihood and date of commencement of generic competition or the impact of any reorganization or change of business focus, then a material impairment charge could arise. We believe that we have used reasonable estimates in assessing the carrying values of our intangible assets. The results of certain impairment tests on intangible assets with estimable useful lives are discussed below.

We review our goodwill for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The goodwill impairment test is a two-step test and is performed at the reporting unit level. A reporting unit is the same as, or one level below, an operating segment as defined by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. We have two reporting units: Biopharmaceuticals and EDT. Under the first step, we compare the fair value of each reporting unit with its carrying value, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and step two does not need to be performed. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test would be performed to measure the amount of impairment charge, if any. The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill, and any excess of the carrying amount over the implied fair value is recognized as an impairment charge. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined, by allocating the fair value of a reporting unit to individual assets and liabilities. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. In evaluating goodwill for impairment, we determine the fair

values of the reporting units using the income approach, based on estimated discounted future cash flows. The results of our goodwill impairment tests did not indicate any impairment in 2007, 2006 or 2005.

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In June 2007, we recorded an impairment charge of \$52.2 million, within other net charges in the Consolidated Income Statement, relating to the *Maxipime* and *Azactam* intangible assets. As a direct result of the approval of a first generic formulation of cefepime hydrochloride in June 2007 and the anticipated approval for a generic form of *Azactam*, we revised the projected future cumulative undiscounted cash flows. The revised projected cumulative undiscounted cash flows were lower than the intangible assets' carrying value, thus indicating the intangible assets were not recoverable. Consequently, the impairment charge was calculated as the excess of the carrying value over the discounted net present value. In conjunction with the impairment charge, we revised the estimated useful lives of the intangibles by nine months from September 2008 to December 2007. Accordingly, the remaining net intangible assets carrying value was amortized, on a straight-line basis, through December 31, 2007. There were no material impairment charges relating to intangible assets in either 2006 or 2005. For additional information on goodwill and other intangible assets, refer to Note 15 to the Consolidated Financial Statements.

In January 2005, we launched *Prialt* in the United States. Revenues from sales of *Prialt* totaled \$12.3 million, \$12.1 million and \$6.3 million in 2007, 2006 and 2005, respectively. These revenues were lower than our initial forecast. Our estimates of the recoverable amount of this product, based on future net cash flows, are in excess of the asset's carrying value of \$58.1 million at December 31, 2007. We believe that we have used reasonable estimates in assessing the carrying value of this intangible. Nevertheless, should our future revenues from this product fail to meet our expectations, the carrying value of this asset may become impaired.

We have invested significant resources in our manufacturing facilities in Ireland to provide us with the capability to manufacture products from our product development pipeline. To the extent that we are not successful in developing these pipeline products or do not acquire products to be manufactured at our facilities, the carrying value of these facilities may become impaired. At December 31, 2007, our best estimates of the likely success of development and commercialization of our pipeline products support the carrying value of our manufacturing facilities.

Revenue Recognition

We recognize revenue from the sale of our products, royalties earned and contract arrangements in accordance with the SEC's Staff Accounting Bulletin No. 104, Revenue Recognition, (SAB 104), which requires the deferral and amortization of up-front fees when there is a significant continuing involvement (such as an ongoing product manufacturing contract) by the seller after an asset disposal. We defer and amortize up-front license fees to the income statement over the performance period. The performance period is the period over which we expect to provide services to the licensee as determined by the contract provisions. Generally, milestone payments are recognized when earned and non-refundable, and when we have no future legal obligation pursuant to the payment. However, the actual accounting for milestones depends on the facts and circumstances of each contract. We apply the substantive milestone method in accounting for milestone payments. This method requires that substantive effort must have been applied to achieve the milestone prior to revenue recognition. If substantive effort has been applied, the milestone is recognized as revenue, subject to it being earned, non-refundable and not subject to future legal obligation. This requires an examination of the facts and circumstances of each contract. Substantive effort may be demonstrated by various factors, including the risks associated with achieving the milestone, the period of time over which effort was expended to achieve the milestone, the economic basis for the milestone payment and licensing arrangement and the costs and staffing to achieve the milestone. It is expected that the substantive milestone method will be appropriate for most contracts. If we determine the substantive milestone method is not appropriate, we apply the proportional performance method to the relevant contract. This method recognizes as revenue the percentage of cumulative non-refundable cash payments earned under the contract, based on the percentage of costs incurred to date compared to the total costs expected under the contract.

Share-Based Compensation

Beginning January 1, 2006, we account for share-based compensation in accordance with SFAS No. 123 (revised 2004), Share-Based Payment, (SFAS 123R), which requires the measurement and recognition of compensation expense for all share-based awards made to employees and directors based on estimated grant date fair values. These awards include employee stock options, RSUs and stock purchases related to our employee equity purchase plans. We elected to apply the modified prospective transition method, under which periods prior to 2006

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have not been restated to reflect, and do not include, the impact of SFAS 123R. The adoption of SFAS 123R has had a material effect on our reported financial results. Share-based compensation expense recognized under SFAS 123R for the years ended December 31, 2007 and 2006 was \$45.1 million and \$47.1 million, respectively. For additional information, refer to Note 25 to the Consolidated Financial Statements.

SFAS 123R requires companies to estimate the fair values of share-based awards on the date of grant using an option-pricing model. The value of awards expected to vest is recognized as an expense over the requisite service periods. Prior to the adoption of SFAS 123R, we had accounted for share-based awards to employees and directors using the intrinsic value method in accordance with the Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB 25) as allowed under SFAS 123. Under the intrinsic value method, no share-based compensation expense had been recognized in our Consolidated Statement of Operations, other than as related to modifications and compensatory employee equity purchase plans, because the exercise price of the stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Estimating the fair value of share-based awards as of the date of grant using an option-pricing model, such as the binomial model, is affected by our stock price as well as assumptions regarding a number of complex variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, risk-free interest rates, and actual and projected employee exercise behaviors. If factors change and/or we employ different assumptions in the application of SFAS 123R in future periods, the compensation expense that we record under SFAS 123R for future grants may differ significantly from what we have recorded in the Consolidated Financial Statements. However, we believe we have used reasonable assumptions to estimate the fair value of our share-based awards.

In April 2007, we modified outstanding stock option grants and outstanding 2007 RSUs held by members of the Operating Committee of Elan (15 members at the modification date) to provide for the accelerated vesting of the awards upon involuntary termination, for any reason other than cause, together with the extension of the period to exercise outstanding stock options for a two-year period (previously 90 days) from the termination date. This resulted in the fair value of the outstanding options being remeasured at the modification date. The impact of the modification for all applicable outstanding awards amounted to additional share-based compensation expense of \$0.8 million, which has been and will be taken into account over the remaining vesting terms of the awards from the modification date.

Contingencies Relating to Actual or Potential Administrative and Legal Proceedings

We are currently involved in legal and administrative proceedings, relating to securities matters, patent matters, antitrust matters and other matters, some of which are described in Note 27 to the Consolidated Financial Statements. In accordance with SFAS No. 5, *Accounting for Contingencies*, we assess the likelihood of any adverse outcomes to contingencies, including legal matters, as well as potential ranges of probable losses. We record accruals for such contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. If an unfavorable outcome is probable, but the amount of the loss cannot be reasonably estimated, we estimate the range of probable loss and accrue the most probable loss within the range. If no amount within the range is deemed more probable, we accrue the minimum amount within the range. If neither a range of loss nor a minimum amount of loss is estimable, then appropriate disclosure is provided, but no amounts are accrued. As of December 31, 2007, we had accrued \$1.7 million, representing our estimates of liability and costs for the resolution of these matters. We developed estimates in consultation with outside counsel handling our defense in these matters using the facts and circumstances known to us. The factors that we consider in developing our legal contingency accrual include the merits and jurisdiction of the litigation, the nature and number of other similar current and past litigation cases, the nature of the product and assessment of the science subject to the litigation, and the likelihood of settlement and state of settlement discussions, if any. We believe that the legal contingency accrual that we have established is appropriate

based on current factors and circumstances. However, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop a different liability amount. The nature of these matters is highly uncertain and subject to change. As a result, the amount of our liability for certain of these matters could exceed or be less than the amount of our estimates, depending on the outcome of these matters.

Table of Contents***Sales Discounts and Allowances***

We recognize revenue on a gross revenue basis and make various deductions to arrive at net revenue as reported in the Consolidated Statements of Operations. These adjustments are referred to as sales discounts and allowances and are described in detail below. Sales discounts and allowances include charge-backs, managed health care and Medicaid rebates, cash discounts, sales returns and other adjustments. Estimating these sales discounts and allowances is complex and involves significant estimates and judgments, and we use information from both internal and external sources to generate reasonable and reliable estimates. We believe that we have used reasonable judgments in assessing our estimates, and this is borne out by our historical experience. At December 31, 2007, we had total provisions of \$18.9 million for sales discounts and allowances, of which approximately 39.9%, 37.2% and 20.5% related to *Azactam*, *Maxipime* and *Tysabri*, respectively. We have more than nine years of experience in relation to *Maxipime* and *Azactam* and almost two years of experience for *Tysabri*. The sales discounts and allowances related to *Tysabri* are estimated based on historical data of a similar product and our experience to date with this product. We do not expect *Tysabri* sales returns to be material given the manner in which this product is prescribed and used.

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

We account for sales discounts, allowances and returns in accordance with the FASB's Emerging Issues Task Force (EITF) Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products), and SFAS No. 48, Revenue Recognition When Right of Return Exists, (SFAS 48) as applicable.

The table below summarizes our sales discounts and allowances to adjust gross revenue to net revenue for each significant category. An analysis of the separate components of our revenue is set out in Item 5.A. Operating Results, and in Note 3 to the Consolidated Financial Statements.

	Years Ended December 31,		
	2007	2006	2005
Gross revenue subject to discounts and allowances	\$ 522.6	\$ 311.3	\$ 273.2
Manufacturing revenue and royalties	271.3	234.8	207.1
Contract revenue	30.8	27.5	32.2
Amortized revenue <i>Adalat</i> [®] / <i>Avinza</i> [®]	4.5	30.7	34.0
Gross revenue	\$ 829.2	\$ 604.3	\$ 546.5
Sales discounts and allowances:			
Charge-backs	\$ (41.6)	\$ (28.6)	\$ (22.8)
Managed health care rebates and other contract discounts	(2.9)	(3.7)	(2.9)
Medicaid rebates	(3.5)	(1.2)	(1.6)
Cash discounts	(11.5)	(6.5)	(5.5)
Sales returns	(4.3)	(0.6)	(20.9)
Other adjustments	(6.0)	(3.3)	(2.5)
Total sales discounts and allowances	\$ (69.8)	\$ (43.9)	\$ (56.2)

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Net revenue subject to discounts and allowances	452.8	267.4	217.0
Manufacturing revenue and royalties	271.3	234.8	207.1
Contract revenue	30.8	27.5	32.2
Amortized revenue Adalat/Avinza	4.5	30.7	34.0
Net revenue	\$ 759.4	\$ 560.4	\$ 490.3

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Total sales discounts and allowances were 13.4% of gross revenue subject to discounts and allowances in 2007, 14.1% in 2006 and 20.6% in 2005, as detailed in the rollforward below and as further explained in the following paragraphs.

Charge-backs as a percentage of gross revenue subject to discounts and allowances were 8.0% in 2007, 9.2% in 2006 and 8.3% in 2005. The managed health care rebates and Medicaid rebates as a percentage of gross revenue subject to discounts and allowances were 0.6% and 0.7%, respectively, in 2007; 1.2% and 0.4%, respectively, in 2006; and 1.1% and 0.6%, respectively, in 2005. These changes are due primarily to changes in the product mix.

Cash discounts as a percentage of gross revenue subject to discounts and allowances remained fairly consistent at 2.2% in 2007, compared to 2.1% in 2006 and 2.0% in 2005. In the United States, we offer cash discounts, generally at 2% of the sales price, as an incentive for prompt payment by our customers.

Sales returns as a percentage of gross revenue subject to discounts and allowances were 0.8% in 2007, 0.2% in 2006 and 7.7% in 2005. The decrease in 2006 as compared to 2005 was principally due to the voluntary suspension of *Tysabri* in February 2005, which increased the provision for returns in 2005, and changes in the product mix.

The following table sets forth the activities and ending balances of each significant category of adjustments for the sales discounts and allowances (in millions):

	Charge-Backs	Managed Health Care Rebates and Other Contract Discounts	Medicaid Rebates	Cash Discounts	Sales Returns	Other Adjustments	Total
Balance at December 31, 2005	\$ 6.7	\$ 1.4	\$ 1.1	\$ 0.9	\$ 6.6	\$ 0.5	\$ 17.2
Provision related to sales made in current period	28.6	3.7	1.2	6.5	2.3	3.3	45.6
Provision related to sales made in prior periods					(1.7)		(1.7)
Returns and payments	(28.6)	(3.5)	(1.4)	(6.3)	(2.0)	(2.8)	(44.6)
Balance at December 31, 2006	6.7	1.6	0.9	1.1	5.2	1.0	16.5
Provision related to sales made in current period	41.6	2.9	3.5	11.5	3.9	6.0	69.4
Provision related to sales made in prior periods					0.4		0.4
Returns and payments	(42.9)	(3.6)	(1.4)	(11.6)	(1.9)	(6.0)	(67.4)
Balance at December 31, 2007	\$ 5.4	\$ 0.9	\$ 3.0	\$ 1.0	\$ 7.6	\$ 1.0	\$ 18.9

(a) Charge-backs

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

As described above, there are a number of factors involved in estimating the accrual for charge-backs, but the principal factor relates to our estimate of the levels of inventory in the wholesale distribution channel. At December 31, 2007, *Maxipime*, *Azactam* and *Tysabri* represented approximately 73.6%, 15.6% and 10.3%, respectively, of the total charge-backs accrual balance of \$5.4 million. If we were to increase/(decrease) our

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estimated level of inventory in the wholesale distribution channel by one month's worth of demand for *Maxipime*, *Azactam* and *Tysabri*, the accrual for charge-backs would increase/(decrease) by approximately \$0.8 million. We believe that our estimate of the levels of inventory for *Maxipime*, *Azactam* and *Tysabri* in the wholesale distribution channel is reasonable because it is based upon multiple sources of information, including data received from all of the major wholesalers with respect to their inventory levels and sell-through to customers, third-party market research data, and our internal information.

(b) Managed healthcare rebates and other contract discounts

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

(c) Medicaid rebates

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

(d) Cash discounts

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

(e) Sales returns

We account for sales returns in accordance with SFAS 48 by establishing an accrual in an amount equal to our estimate of revenue recorded for which the related products are expected to be returned.

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

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

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Returns from newly introduced products are significantly more difficult for us to assess. We determine our estimate of the sales return accrual primarily based on the historical sales returns experience of similar products, such as those within the same or similar therapeutic category. We also consider the shelf life of new products and determine whether we believe an adjustment to the sales return accrual is appropriate. The shelf life in connection with new products tends to be shorter than the shelf life for more established products because we may still be developing the optimal stability duration for the new product that would lengthen its shelf life, or an amount of launch quantities may have been manufactured in advance of the launch date to ensure sufficient supply exists to satisfy market demand. In those cases, we assess the reduced shelf life, together with estimated levels of inventory in the distribution channel and projected demand, and determine whether we believe an adjustment to the sales return accrual is appropriate. While it is inherently more difficult to assess returns from newly introduced products than from established products, nevertheless in all instances we believe we have been able to gather sufficient information in order to establish reasonable estimates.

As described above, there are a number of factors involved in estimating this accrual, but the principal factor relates to our estimate of the shelf life of inventory in the distribution channel. At December 31, 2007, *Maxipime*, *Azactam* and *Tysabri* represented approximately 21.1%, 69.4% and 7.4%, respectively, of the total sales returns accrual balance of \$7.6 million. We believe, based upon both the estimated shelf life and also our historical sales returns experience, that the vast majority of this inventory will be sold prior to the expiration dates, and accordingly believe that our sales returns accrual is appropriate.

(f) Other adjustments

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

(g) Provisions related to sales made in prior periods

During 2007, we recorded \$0.4 million of adjustments to increase the discounts and allowances related to sales made in prior periods, primarily due to the availability of additional information relating to our actual returns experience for *Tysabri*, *Maxipime* and *Azactam*.

(h) Use of information from external sources

We use information from external sources to estimate our significant sales discounts and allowances. Our estimates of inventory at the wholesalers are based on:

The actual and projected prescription demand-based sales for our products and historical inventory experience;

Our analysis of third-party information, including written and oral information obtained from all of the major wholesalers with respect to their inventory levels and sell-through to customers, and third-party market research data; and

Our internal information.

We also use information from external sources to identify prescription trends and patient demand. Since 2004, we have been receiving inventory pipeline data from the three major wholesalers (McKesson Corp., Cardinal

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements, (SFAS 157), which is effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. On December 14, 2007, the FASB issued FASB Staff Position (FSP) FAS 157-b, which will delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. This proposed FSP partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008. We do not expect that the adoption of SFAS 157 will have a material impact on our financial position or results from operations.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial and Financial Liabilities, (SFAS 159), which is effective for fiscal years beginning after November 15, 2007. SFAS 159 provides companies with the option to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. We are currently evaluating the provisions of SFAS 159; however we do not expect that its adoption will have a material impact on our financial position or results of operations.

In June 2007, the FASB ratified EITF Issue No. 07-03, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities, (EITF 07-03). EITF 07-03 is effective prospectively for fiscal years beginning after December 15, 2007. EITF 07-03 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. We do not expect that the adoption of EITF 07-03 will have a material impact on our financial position or results from operations.

In November 2007, the FASB's EITF reached consensus on Issue 07-01, Accounting for Collaborative Arrangements, (EITF 07-01), which is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. EITF 07-01 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. We do not expect that the adoption of EITF 07-01 will have a material impact on our financial position or results from operations.

In December 2007, the FASB issued Statement No. 141 (revised 2007), Business Combinations, (SFAS 141R), which is effective for financial statements issued for fiscal years beginning after December 15, 2008, with early adoption not permitted. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements at full fair value the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141R on our consolidated results of operations and financial position.

In December 2007, the FASB issued Statement No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51, (SFAS 160), which is effective for financial statements issued for fiscal years beginning after December 15, 2008, with early adoption not permitted. SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes

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to a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our consolidated results of operations and financial position.

POST BALANCE SHEET EVENTS

On January 14, 2008, the FDA approved Elan and Biogen Idec's supplemental Biologics License Application for *Tysabri* for Crohn's disease. *Tysabri* is now approved for inducing and maintaining clinical response and remission in adult patients with moderately to severely active CD with evidence of inflammation who have had an inadequate response to, or are unable to tolerate, conventional CD therapies and inhibitors of TNF-alpha.

A. OPERATING RESULTS

2007 Compared to 2006 and 2005 (in millions, except share and per share amounts)

	2007	2006	2005	% Increase/(Decrease)	
				2007/2006	2006/2005
Product revenue	\$ 728.6	\$ 532.9	\$ 458.1	37%	16%
Contract revenue	30.8	27.5	32.2	12%	(15)%
Total revenue	759.4	560.4	490.3	36%	14%
Operating expenses:					
Cost of sales	337.9	210.3	196.1	61%	7%
Selling, general and administrative expenses	341.8	362.4	359.4	(6)%	1%
Research and development expenses	260.4	217.5	232.3	20%	(6)%
Net gain on divestment of products and businesses		(43.1)	(103.4)	(100)%	(58)%
Other net (gains)/charges	84.6	(20.3)	4.4	517%	(561)%
Total operating expenses	1,024.7	726.8	688.8	41%	6%
Operating loss	(265.3)	(166.4)	(198.5)	59%	(16)%
Net interest and investment (gains) and losses:					
Net interest expense	113.1	111.5	125.7	1%	(11)%
Net investment (gains)/losses	0.9	(1.6)	7.2	(156)%	(122)%
Net charge on debt retirements	18.8		51.8		(100)%
Net interest and investment losses	132.8	109.9	184.7	21%	(40)%
Loss from continuing operations before income taxes	(398.1)	(276.3)	(383.2)	44%	(28)%
Provision for/(benefit from) income taxes	6.9	(9.0)	1.0	177%	(1,000)%

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Net loss from continuing operations	(405.0)	(267.3)	(384.2)	52%	(30)%
Income from discontinued operations, net of tax			0.6		(100)%
Net loss	\$ (405.0)	\$ (267.3)	\$ (383.6)	52%	(30)%
Basic and diluted net loss per Ordinary Share:					
Net loss from continuing operations	\$ (0.86)	\$ (0.62)	\$ (0.93)	39%	(33)%
Net income from discontinued operations (net of tax)					
Net loss	\$ (0.86)	\$ (0.62)	\$ (0.93)	39%	(33)%

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Total revenue was \$759.4 million in 2007, \$560.4 million in 2006 and \$490.3 million in 2005 as detailed in the schedule above and as further explained in the following paragraphs.

Product Revenue

Total product revenue was \$728.6 million in 2007, \$532.9 million in 2006 and \$458.1 million in 2005. The increases in 2007 of 37%, compared to 2006, and in 2006 of 16%, compared to 2005, were primarily due to the continued strong growth of *Tysabri* within our Biopharmaceuticals business and continued growth across a number of products in our EDT portfolio, partially offset by decreases in amortized revenue and reduced revenue from *Maxipime* in 2007 compared to 2006 following the introduction of generic competition. The components of product revenue are set out below (in millions):

	2007	2006	2005	% Increase/(Decrease)	
				2007/2006	2006/2005
(A) Biopharmaceuticals:					
<i>Tysabri</i> - U.S.	\$ 217.4	\$ 28.2	\$ 11.0	671%	156%
<i>Tysabri</i> - ROW	14.3	(10.7)		234%	
Total <i>Tysabri</i>	231.7	17.5	11.0	1,224%	59%
<i>Maxipime</i>	122.5	159.9	140.3	(23)%	14%
<i>Azactam</i>	86.3	77.9	57.7	11%	35%
<i>Prialt</i>	12.3	12.1	6.3	2%	92%
Royalties	1.8	2.4	4.3	(25)%	(44)%
Total product revenue from Biopharmaceuticals business	454.6	269.8	219.6	68%	23%
(B) EDT:					
Manufacturing revenue and royalties	269.5	232.4	204.5	16%	14%
Amortized revenue Adalat/Avinza	4.5	30.7	34.0	(85)%	(10)%
Total product revenue from EDT business	274.0	263.1	238.5	4%	10%
Total product revenue	\$ 728.6	\$ 532.9	\$ 458.1	37%	16%

(A) Product revenue from our Biopharmaceuticals business

Total product revenue from our Biopharmaceuticals business increased 68% to \$454.6 million in 2007 from \$269.8 million in 2006. The increase primarily reflects higher sales of *Tysabri* and *Azactam*, partially offset by the decline in sales of *Maxipime* due to generic competition. In 2006, total Biopharmaceuticals product revenue increased 23% to \$269.8 million from \$219.6 million in 2005. The increase reflects higher sales of *Tysabri*, *Maxipime*, *Azactam* and *Prialt* as a result of strong demand.

The FDA initially granted approval of *Tysabri* in November 2004 for the treatment of relapsing forms of MS and our commercial distribution began shortly thereafter. The revenue from sales of *Tysabri* amounted to \$11.0 million in

2005 prior to the voluntary suspension of the commercialization and clinical dosing of the product in February 2005 due to safety concerns. In June 2006, the FDA approved the reintroduction of *Tysabri* for the treatment of relapsing forms of MS. Approval for the marketing of *Tysabri* in the European Union was also received in June 2006 and has subsequently been received in a number of other countries. The distribution of *Tysabri* in both the United States and the ROW recommenced in July 2006.

Tysabri was developed and is now being marketed in collaboration with Biogen Idec. In general, subject to certain limitations imposed by the parties, we share with Biogen Idec most of the development and commercialization costs for *Tysabri*. Biogen Idec is responsible for manufacturing the product. In the United States, we purchase *Tysabri* from Biogen Idec and are responsible for distribution. Consequently, we record as revenue the net sales of *Tysabri* in the U.S. market. We purchase product from Biogen Idec at a price that includes the cost of

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manufacturing, plus Biogen Idec's gross profit on *Tysabri*, and this cost, together with royalties payable to other third parties, is included in cost of sales.

Outside of the United States, Biogen Idec is responsible for distribution and we record as revenue our share of the profit or loss on these sales of *Tysabri*, plus our directly-incurred expenses on these sales.

Global in-market net sales of *Tysabri* can be analyzed as follows (in millions):

	2007	2006	2005	% Increase/(Decrease)	
				2007/2006	2006/2005
United States	\$ 217.4	\$ 28.2	\$ 11.0	671%	156%
ROW	125.5	9.9		1,168%	
Total <i>Tysabri</i> in-market net sales	\$ 342.9	\$ 38.1	\$ 11.0	800%	246%

At the end of December 2007, approximately 21,100 patients were on therapy worldwide, comprising approximately 20,400 on commercial therapy and approximately 700 in MS clinical trials.

Tysabri-United States

In the U.S. market, we recorded net sales of \$217.4 million (2006: \$28.2 million; 2005: \$11.0 million). As of the end of December 2007, more than 2,500 doctors have enrolled patients and approximately 12,900 patients were on commercial *Tysabri* therapy.

Tysabri-ROW

As previously mentioned, in the ROW market, Biogen Idec is responsible for distribution and we record as revenue our share of the profit or loss on ROW sales of *Tysabri*, plus our directly-incurred expenses on these sales. In 2007, Elan recorded ROW revenue of \$14.3 million (2006: negative revenue of \$10.7 million), which was calculated as follows (in millions):

	2007	2006	% Increase/ (Decrease) 2007/2006
ROW in-market sales by Biogen Idec	\$ 125.5	\$ 9.9	1,168%
ROW operating expenses incurred by Elan and Biogen Idec	(138.1)	(34.3)	303%
ROW operating loss incurred by Elan and Biogen Idec	(12.6)	(24.4)	48%
Elan's 50% share of <i>Tysabri</i> ROW collaboration operating loss	(6.3)	(12.2)	48%
Elan's directly-incurred costs	20.6	1.5	1,273%
Net <i>Tysabri</i> ROW revenue	\$ 14.3	\$ (10.7)	234%

As of the end of December 2007, approximately 7,500 patients, principally in the European Union, were on commercial *Tysabri* therapy.

Maxipime revenue decreased 23% to \$122.5 million in 2007 from our 2006 sales level and increased 14% to \$159.9 million in 2006 from our 2005 sales level. The decrease in 2007 was principally due to the introduction of generic competition. In June 2007, the first generic formulation of cefepime hydrochloride was approved by the FDA. Generic cefepime hydrochloride was launched shortly thereafter, and we expect it will continue to materially and adversely affect our revenues from, and gross margin for, *Maxipime*. The increase in *Maxipime* revenue in 2006 from our 2005 sales level reflected growth in the demand for the product and was partially offset by supply shortages in 2006.

Azactam revenue increased 11% to \$86.3 million in 2007 from our 2006 sales level and increased 35% to \$77.9 million in 2006 from our 2005 sales level. The increases in 2007 and 2006 were primarily due to increased demand. *Azactam* lost its patent exclusivity in October 2005, and its future sales are expected to be negatively impacted by generic competition, although to date no generic form of *Azactam* has been approved.

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Prialt revenue increased 2% to \$12.3 million in 2007 from our 2006 sales level and increased 92% to \$12.1 million in 2006 from our 2005 sales level. The increases in both 2007 and 2006 were primarily due to increased demand. *Prialt* was launched in the U.S. market in the first quarter of 2005. In March 2006, we completed the sale of the European rights to *Prialt* to Eisai, while retaining the product rights in the United States. We had not made any commercial sales of *Prialt* in Europe prior to this divestment.

(B) Product revenue from our EDT business*Manufacturing revenue and royalties*

	2007	2006	2005	% Increase/(Decrease)	
				2007/2006	2006/2005
TriCor	\$ 62.5	\$ 52.1	\$ 45.4	20%	15%
Skelaxin®	39.3	36.5	17.9	8%	104%
Verelan®	28.5	36.3	34.7	(21)%	5%
Focalin/Ritalin	28.4	22.5	17.8	26%	26%
Diltiazem	18.7	19.5	18.6	(4)%	5%
Other	92.1	65.5	70.1	41%	(7)%
Total	\$ 269.5	\$ 232.4	\$ 204.5	16%	14%

Manufacturing revenue and royalties from our EDT business comprise revenue earned from products we manufacture for third parties and royalties we earn principally on sales by third parties of products that incorporate our technologies.

Manufacturing revenue and royalties increased 16% to \$269.5 million in 2007 from our 2006 sales level and increased 14% to \$232.4 million in 2006 from \$204.5 million in 2005. The increase in 2007 primarily reflects continued growth across a number of products in our EDT portfolio and increased manufacturing activity. The increase in 2006 from our 2005 sales level was principally due to increased royalties on sales by third parties, primarily TriCor and Skelaxin. In January 2006, our royalty on Skelaxin changed from 5% on all net sales of the product by King Pharmaceuticals, Inc. (King) in 2005, to 10% on net sales in excess of \$50.0 million in each calendar year going forward.

Except as noted above, no other single product accounted for more than 10% of our manufacturing revenue and royalties in 2007, 2006 or 2005. In 2007, 47% of these revenues consisted of royalties received on products that we do not manufacture, compared to 44% in 2006 and 34% in 2005.

Potential generic competitors have challenged the existing patent protection for several of the products from which we earn manufacturing revenue and royalties. We and our clients defend our intellectual property rights vigorously. However, if these challenges are successful, our manufacturing revenue and royalties will be materially and adversely affected.

Amortized revenue Adalat/Avinza

Amortized revenue was \$4.5 million in 2007, compared to \$30.7 million in 2006 and \$34.0 million in 2005. The amortized revenue recorded in 2007 was related to the licensing to Watson Pharmaceuticals, Inc. (Watson) in 2002 of

rights to our generic form of Adalat CC (2006: \$9.0 million; 2005: \$9.0 million). The deferred revenue relating to Adalat CC was fully amortized by June 30, 2007. In 2006, we also recorded \$21.7 million (2005: \$25.0 million) of amortized revenue relating to the restructuring of our Avinza license agreement with Ligand Pharmaceuticals, Inc (Ligand) in 2002. The deferred revenue relating to Avinza was fully amortized by December 2006.

Table of Contents**Contract Revenue**

	2007	2006	2005	% Increase/(Decrease)	
	(In millions)			2007/2006	2006/2005
Biopharmaceuticals:					
Amortized fees	\$ 2.0	\$ 8.5	\$ 12.1	(76)%	(30)%
Research revenues/milestones	7.3				
Total Biopharmaceuticals contract revenue	\$ 9.3	\$ 8.5	\$ 12.1	9%	(30)%
EDT:					
Amortized fees	\$ 4.3	\$ 4.2	\$ 4.3	2%	(2)%
Research revenues/milestones	17.2	14.8	15.8	16%	(6)%
Total EDT contract revenue	\$ 21.5	\$ 19.0	\$ 20.1	13%	(5)%
Total contract revenue	\$ 30.8	\$ 27.5	\$ 32.2	12%	(15)%

Contract revenue consists of research revenue and milestones arising from R&D activities we perform on behalf of third parties or technology licensing. The fluctuations between years in contract revenue within both of our Biopharmaceuticals and EDT businesses were primarily due to the timing of milestone receipts.

Cost of Sales

Cost of sales was \$337.9 million in 2007 (including share-based compensation of \$4.0 million), compared to \$210.3 million in 2006 (including share-based compensation of \$4.2 million) and \$196.1 million in 2005 (including share-based compensation of \$Nil). The cost of sales as a percentage of total revenue was 44% for 2007, 38% for 2006 and 40% for 2005, resulting in a gross profit margin of 56% in 2007, 62% in 2006 and 60% in 2005. The decrease in the gross profit margin in 2007 compared to 2006 was principally due to the change in the mix of product sales, including reduced amortized revenues, the impact of *Tysabri* and the reduced price of *Maxipime* as a result of the entry of a generic competitor. The *Tysabri* gross profit margin of 32% in 2007 (2006: 19%) is impacted by the profit sharing and operational arrangements in place with Biogen Idec and reflects Elan's gross margin on sales of the product in the United States of 36% in 2007 (2006: 34%), offset by the inclusion in cost of sales of royalties payable by Elan on sales of *Tysabri* outside of the United States. These royalties are payable by Elan but reimbursed by the collaboration. The improvement in gross profit margin in 2006 compared to 2005 was primarily due to the change in the mix of product sales and the inclusion in 2005 of costs related to the voluntary suspension of *Tysabri* in the United States.

Selling, General and Administrative (SG&A) Expenses

SG&A expense was \$341.8 million in 2007, \$362.4 million in 2006 and \$359.4 million in 2005. Total SG&A expense for 2007 included \$78.4 million (2006: \$75.0 million; 2005: \$84.7 million) in relation to *Tysabri*. The decrease of 6% in total SG&A expense in 2007 compared to 2006 primarily reflects the restructuring of our commercial infrastructure related to the approval of a generic form of *Maxipime* in June 2007 and the anticipated approval of a generic form of

Azactam, along with reduced amortization expense following the impairment of our *Maxipime* and *Azactam* intangible asset, which resulted in the reduction of related selling and administrative costs. In addition, share-based compensation expense related to SG&A decreased to \$23.9 million in 2007, compared to \$28.8 million in 2006. The increase in SG&A expense related to *Tysabri* reflects the relaunch of *Tysabri* in the United States in 2006. The SG&A expense related to the *Tysabri* ROW sales are reflected in the *Tysabri* ROW revenue as previously described.

The increase of 1% in total SG&A expense in 2006 compared to 2005 reflected the expensing of share-based compensation of \$28.8 million in 2006 (2005: \$Nil), offset by decreased expenses in relation to *Tysabri* and also due to ongoing financial discipline. The decrease in SG&A expense related to *Tysabri* in 2006 compared to 2005 reflected the impact of the temporary suspension of *Tysabri* in 2005 and the relaunch of *Tysabri* in the United States in 2006, partially offset by the expensing of share-based compensation of \$2.5 million (2005: \$Nil).

Table of Contents***Research and Development Expenses***

R&D expenses were \$260.4 million in 2007, \$217.5 million in 2006 and \$232.3 million in 2005. The increase of 20% in 2007 compared to 2006 was primarily due to increased expenses associated with the progression of our Alzheimer's disease programs, particularly the move of AAB-001 into Phase 3 clinical trials and the move of ELND005 into Phase 2 clinical trials during 2007. R&D expenses for 2007 included \$39.3 million (2006: \$31.5 million; 2005: \$66.9 million) in relation to *Tysabri*.

The reduction in total R&D expense of 6% in 2006 compared to 2005 reflected the completion of the safety evaluation related to *Tysabri* in 2005, partially offset by increased spending relating to the progression of key Alzheimer's disease programs, particularly AAB-001, the initiation of new collaborations in the areas of autoimmune diseases and neurodegeneration with Archemix and Transition, respectively, and by the cost of expensing share-based compensation of \$14.1 million in 2006 (2005: \$Nil).

Net Gain on Divestment of Products and Businesses

	2006	2005
	(In millions)	
<i>Prialt</i> European rights	\$ (43.3)	\$
Zonegran		(85.6)
European business	0.2	(17.1)
Other		(0.7)
Total	\$ (43.1)	\$ (103.4)

There were no product or business divestments in 2007.

In March 2006, we sold the *Prialt* European rights to Eisai and received \$50.0 million at closing and are entitled to receive an additional \$10.0 million on the earlier of two years from closing or launches of *Prialt* in key European markets. We recorded a gain of \$43.3 million on this sale. We may also receive an additional \$40.0 million contingent on *Prialt* achieving revenue-related milestones in Europe. As of December 31, 2007, we had received \$8.0 million of the \$10.0 million related to the launches of *Prialt* in key European markets.

In April 2004, we sold our interests in Zonegran in North America and Europe to Eisai for initial net consideration of \$113.5 million at closing. We were also entitled to receive additional consideration of up to \$110.0 million from Eisai if no generic form of Zonegran was approved by certain dates up through January 1, 2006. We received \$85.0 million of this contingent consideration prior to the approval of a generic form of Zonegran in December 2005. Consequently, the total net proceeds received from the sale of Zonegran amounted to \$198.5 million and resulted in a cumulative net gain of \$128.5 million, of which \$85.6 million was recognized in 2005 and \$42.9 million in 2004.

In February 2004, we sold our European sales and marketing business to Zeneus Pharma Ltd. for initial net cash proceeds of \$93.2 million, resulting in a loss of \$2.9 million in 2004. We received an additional \$6.0 million in February 2005, which was accrued at December 31, 2004, and \$15.0 million of contingent consideration in December 2005, which resulted in a net gain of \$17.1 million in 2005 after the release of contingent liabilities of \$2.1 million, which were not ultimately required. We will not receive any further consideration in respect of this disposal.

Table of Contents***Other Net (Gains)/Charges***

The principal items classified as other charges/(gains) include the impairment of our *Maxipime* and *Azactam* assets, severance, restructuring and other costs, legal settlements and awards, and acquired in-process research and development costs. These items have been treated consistently from period to period. We believe that disclosure of significant other (gains)/charges is meaningful because it provides additional information in relation to analyzing certain items.

	2007	2006	2005
	(In millions)		
(A) <i>Maxipime</i> and <i>Azactam</i> asset impairment	\$ 52.2	\$	\$
(B) Severance, restructuring and other costs, net	32.4	7.5	11.8
(C) Legal settlements and awards		(49.8)	(7.4)
(D) Acquired in-process research and development costs		22.0	
Total other net (gains)/charges	\$ 84.6	\$ (20.3)	\$ 4.4

(A) Maxipime and Azactam asset impairment

The *Maxipime* and *Azactam* asset impairment charge of \$52.2 million is related to the launch of a generic formulation of *Maxipime* (cefepime hydrochloride) in June 2007 and the anticipated approval of a generic form of *Azactam*. As a direct result of the approval of a first generic formulation of cefepime hydrochloride in June 2007 and the anticipated approval for a generic form of *Azactam*, we revised the projected future cumulative undiscounted cash flows. The revised projected cumulative undiscounted cash flows were lower than the intangible assets carrying value thus indicating the intangible assets were not recoverable. Consequently, the impairment charge was calculated as the excess of the carrying value over the discounted net present value. The remaining net intangible assets carrying value was amortized, on a straight-line basis, through December 31, 2007.

(B) Severance, restructuring and other costs

During 2007, we incurred severance, restructuring and other costs of \$32.4 million arising principally from the restructuring of our commercial infrastructure and consolidation of our U.S. West Coast locations, which resulted in the closure of the San Diego facility and the expansion of our operations in South San Francisco. The restructuring of our commercial infrastructure was primarily a result of the approval of a generic form of *Maxipime* and the anticipated approval of a generic form of *Azactam*.

During 2006, the net severance, restructuring and other costs of \$7.5 million (2005: \$11.8 million) were related to the realignment of our resources to meet our current business structure. The restructuring and severance charges in 2006 were primarily related to the consolidation of our Biopharmaceuticals R&D activities into our South San Francisco facility. These charges arose from termination of certain operating leases, reduction of headcount and relocation of employees, and they included the reversal of a \$9.4 million charge for future lease payments on an unutilized facility in South San Francisco. As a part of the restructuring of our Biopharmaceutical R&D activities, this facility was brought back into use.

(C) Legal settlements and awards

In December 2006, we were awarded \$49.8 million following the conclusion of binding arbitration proceedings that were initiated against King with respect to an agreement to reformulate Sonata[®]. This award was recognized as a gain in 2006 and was received in January 2007.

During 2005, we recorded a net gain of \$7.4 million related primarily to the Pfizer litigation settlement in which we received a payment of \$7.0 million. The settlement arose from a claim concerning intellectual property rights and the development of target compounds arising from a collaboration with Pfizer.

Table of Contents*(D) Acquired in-process research and development costs*

In July 2006, Elan and Archemix entered into a multi-year, multi-product alliance focused on the discovery, development and commercialization of aptamer therapeutics to treat autoimmune diseases. As a result of the alliance, Elan paid Archemix an upfront payment of \$7.0 million. In addition, in September 2006, Elan and Transition announced an exclusive, worldwide collaboration agreement for the joint development and commercialization of ELND005, for the treatment of Alzheimer's disease. Elan incurred a charge related to the license fee of \$15.0 million, of which \$7.5 million was paid to Transition in 2006 and the rest in 2007. For additional information, please refer to Item 4.B. Business Overview, which describes our R&D programs in detail.

Net Interest Expense

Net interest expense was \$113.1 million in 2007, \$111.5 million in 2006 and \$125.7 million in 2005. The increase of 1% in 2007 as compared to 2006 primarily reflects less interest income earned as a result of lower cash balances.

At December 31, 2007, all of Elan's liquid investments were invested in bank deposits and funds. In December 2007, due to the dislocations in the capital markets, one of these funds was closed. As a result, at December 31, 2007, the amount invested in this fund of \$274.8 million was no longer included in cash and cash equivalents and was presented as an investment. Since December 31, 2007, Elan has reduced the amount invested in this fund to approximately \$100 million and has moved approximately \$175 million into bank deposits and United States treasury funds. Included within net interest expense for 2007 is net interest income of \$42.3 million, which includes a charge of \$3.8 million incurred in relation to this fund. There were no equivalent charges in 2006 or 2005.

The decrease in net interest expense of 11% in 2006 as compared to 2005 primarily reflected the decrease in interest expense associated with the early retirement of \$36.8 million of the 7.25% senior notes (Athena Notes) due in 2008, the early conversion of \$206.0 million in aggregate principal amount of 6.5% Convertible Notes in the second quarter of 2005, and increased interest income associated with higher cash balances and interest rates, partially offset by interest expense related to the 8.875% senior notes due in 2013 (8.875% Notes) and senior floating rate notes due in 2013 (Floating Rate Notes due 2013), both of which were issued in November 2006.

Net Investment (Gains)/Losses

Net investment losses were \$0.9 million in 2007, compared to a gain of \$1.6 million in 2006 and a loss of \$7.2 million in 2005. The net investment losses in 2007 were primarily comprised of \$6.6 million gains on the sale of investment securities (2006: \$8.3 million; 2005: \$17.5 million) and an impairment charge of \$6.1 million (2006: \$7.3 million; 2005: \$24.0 million).

In 2007, we raised \$31.3 million in net cash proceeds from the disposal of investment securities. The \$6.6 million in gains on the sale of investment securities in 2007 includes gains on sale of securities of Adnexus Therapeutics, Inc. of \$3.0 million and Women's First Healthcare, Inc. of \$1.3 million.

In 2006, we raised \$14.1 million in net cash proceeds from the disposal of investment securities. The \$8.3 million in gains on the sale of investment securities in 2006 includes gains on sale of securities of Salu, Inc. of \$3.0 million, Nobex Corporation of \$2.5 million and Women's First Healthcare, Inc. of \$1.0 million.

In 2005, we raised \$62.7 million in net cash proceeds from the disposal of investment securities. The \$17.5 million in gains on the sale of investment securities in 2005 includes gains on sale of securities of Allergy Therapeutics plc of \$10.0 million, Iomai Corporation of \$3.2 million and Emisphere Technologies, Inc. of \$1.8 million.

In 2007, we recorded an impairment of \$5.0 million related to an investment of \$11.4 million in auction rate securities. The remaining impairment charges of \$1.1 million (2006: \$7.3 million; 2005: \$24.0 million) related to various investments in emerging pharmaceutical and biotechnology companies.

Provision for/(Benefit from) Income Taxes

We had a net tax provision of \$6.9 million for 2007, compared to a net tax benefit of \$9.0 million in 2006 and a net tax provision of \$1.0 million for 2005.

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The overall tax provision for 2007 was \$5.1 million. Of this amount, \$1.8 million has been credited to shareholders equity to reflect utilization of stock option deductions. The remaining \$6.9 million provision is allocated to ordinary activities. The tax provision reflected the availability of tax losses, tax at standard rates in the jurisdictions in which we operate, income derived from Irish patents and foreign withholding tax. Our Irish patent-derived income was exempt from tax pursuant to Irish legislation, which exempts from Irish tax income derived from qualifying patents. From January 1, 2008, the amount of income that can qualify for the patent exemption will be capped at 5 million per year. This cap will not have a material effect on Elan's tax position. For additional information regarding tax, refer to Note 21 to the Consolidated Financial Statements.

The overall tax benefit for 2006 was \$11.0 million. Of this amount, \$2.0 million has been credited to shareholders equity to reflect utilization of stock option deductions. The remaining \$9.0 million benefit is allocated to ordinary activities. The tax benefit reflected the availability of tax losses, tax at standard rates in the jurisdictions in which we operate, income derived from Irish patents and foreign withholding tax. Our Irish patent-derived income was exempt from tax pursuant to Irish legislation, which exempts from Irish tax income derived from qualifying patents.

The overall tax provision for 2005 was \$0.4 million. Of this amount, \$0.6 million has been credited to shareholders equity to reflect utilization of stock option deductions. The remaining \$1.0 million provision is allocated to ordinary activities. The tax provision reflected tax at standard rates in the jurisdictions in which we operate, income derived from Irish patents, foreign withholding tax and the availability of tax losses. Our Irish patent-derived income was exempt from tax pursuant to Irish legislation, which exempts from Irish tax income derived from qualifying patents.

SEGMENT ANALYSIS

Our business is organized into two business units: Biopharmaceuticals and EDT. Biopharmaceuticals engages in research, development and commercial activities primarily in Alzheimer's disease, Parkinson's disease, multiple sclerosis, Crohn's disease, severe chronic pain and infectious diseases. EDT is an established, profitable and growing specialty pharmaceutical business unit of Elan. For nearly 40 years, EDT has been applying its skills and knowledge to enhance the performance of dozens of drugs that have been marketed worldwide. For additional information on our current operations, please refer to Item 4.B. Business Overview.

Analysis of Results of Operations by Segment**Biopharmaceuticals (in millions)**

	2007	2006	2005	%	
				Increase/(Decrease)	
				2007/2006	2006/2005
Product revenue	\$ 454.6	\$ 269.8	\$ 219.6	68%	23%
Contract revenue	9.3	8.5	12.1	9%	(30)%
Total revenue	463.9	278.3	231.7	67%	20%
Operating expenses:					
Cost of sales	224.2	87.4	84.0	157%	4%
Selling, general and administrative expenses	297.4	323.1	331.3	(8)%	(2)%
Research and development expenses	212.0	170.1	192.8	25%	(12)%
		(43.1)	(103.1)	(100)%	(58)%

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Net gain on divestment of products and businesses					
Other net charges	80.8	26.3	4.4	207%	498%
Total operating expenses	814.4	563.8	509.4	44%	11%
Operating loss	\$ (350.5)	\$ (285.5)	\$ (277.7)	23%	3%

Table of Contents***Total Revenue***

Total revenue for our Biopharmaceuticals segment was \$463.9 million in 2007, \$278.3 million in 2006 and \$231.7 million in 2005, and is analyzed further below between product revenue and contract revenue.

Biopharmaceuticals product revenue was \$454.6 million in 2007, \$269.8 million in 2006 and \$219.6 million in 2005. Refer to page 40 for additional discussion on product revenue from our Biopharmaceuticals business.

Contract revenue of \$9.3 million in 2007 (2006: \$8.5 million; 2005: \$12.1 million) consists of milestones arising from R&D activities we perform on behalf of third parties. The fluctuations between years in contract revenue within our Biopharmaceuticals business were primarily due to the timing of milestone receipts.

Cost of Sales

Cost of sales was \$224.2 million in 2007, compared to \$87.4 million in 2006 and \$84.0 million in 2005. The cost of sales as a percentage of revenue was 48% for 2007, 31% for 2006 and 36% for 2005, resulting in a gross profit margin of 52% in 2007, 69% in 2006 and 64% in 2005. The decrease in the gross profit margin in 2007 as compared to 2006 was principally due to the change in the mix of product sales, the impact of *Tysabri* and the reduced selling price of *Maxipime* as a result of the entry of a generic competitor. The *Tysabri* gross profit margin of 32% in 2007 (2006: 19%) is impacted by the profit sharing and operational arrangements in place with Biogen Idec and reflects Elan's gross margin on sales of the product in the United States of 36% in 2007 (2006: 34%), partially offset by the inclusion in cost of sales of royalties payable by Elan on sales of *Tysabri* outside of the United States. These royalties are payable by Elan but reimbursed by the collaboration. The improvement in gross profit margin in 2006 as compared to 2005 was primarily due to the change in the mix of product sales and the inclusion in 2005 of costs related to the voluntary suspension of *Tysabri* in the United States.

Selling, General and Administrative Expenses

SG&A expense was \$297.4 million in 2007, \$323.1 million in 2006 and \$331.3 million in 2005. Total SG&A expense for 2007 includes \$78.4 million (2006: \$75.0 million; 2005: \$84.7 million) in relation to *Tysabri*. The decrease of 8% in total SG&A expense in 2007 compared to 2006 primarily reflects the restructuring of our commercial infrastructure related to the approval of a generic form of *Maxipime* in June 2007 and the anticipated approval of a generic form of *Azactam*, along with reduced amortization expense following the impairment of our *Maxipime* and *Azactam* intangible asset, which resulted in the reduction of related selling and administrative costs. The increase in SG&A expenses related to *Tysabri* reflects the relaunch of *Tysabri* in the United States in 2006. The SG&A expense related to the *Tysabri* ROW sales are reflected in the *Tysabri* ROW revenue as previously described.

The decrease of 2% in total SG&A expense in 2006 compared to 2005 reflected decreased expenses in relation to *Tysabri* and ongoing financial discipline, offset by the expensing of share-based compensation of \$24.9 million in 2006 (2005: \$Nil). The decrease in SG&A expense related to *Tysabri* in 2006 compared to 2005 reflected the impact of the temporary suspension of *Tysabri* in 2005 and the relaunch of *Tysabri* in the United States in 2006, partially offset by the expensing of shared-based compensation of \$2.5 million in 2006 (2005: \$Nil).

Research and Development Expenses

R&D expenses were \$212.0 million in 2007, \$170.1 million in 2006 and \$192.8 million in 2005. The increase of 25% in 2007 compared to 2006 was primarily due to increased expenses associated with the progression of our Alzheimer's disease programs and particularly the advance of AAB-001 into Phase 3 clinical trials and the advance of ELND005 into Phase 2 clinical trials during 2007. R&D expenses for 2007 included \$39.3 million (2006: \$31.5 million; 2005:

\$66.9 million) in relation to *Tysabri*.

The reduction in total R&D expense of 12% in 2006 compared to 2005 reflected the completion of the safety evaluation related to *Tysabri* in 2005, partially offset by increased spending relating to the progression of key Alzheimer's disease programs, particularly AAB-001, the initiation of new collaborations in the areas of autoimmune diseases and neurodegeneration with Archemix and Transition, respectively, and by the cost of expensing share-based compensation of \$12.6 million in 2006 (2005: \$Nil).

Table of Contents***Net Gain on Divestment of Products and Businesses***

	2006	2005
	(In millions)	
<i>Prialt</i> European rights	\$ (43.3)	\$
Zonegran		(85.6)
European business	0.2	(17.1)
Other		(0.4)
Total	\$ (43.1)	\$ (103.1)

There were no product or business divestments in 2007. Refer to page 44 for additional discussion on the net gain on divestment of products and business for 2006 and 2005.

Other Net Charges

The principal items classified as other charges include the impairment of our *Maxipime* and *Azactam* assets, severance, restructuring and other costs and acquired in-process research and development. These items have been treated consistently from period to period. We believe that disclosure of other net charges is meaningful because it provides additional information in relation to these material items.

	2007	2006	2005
	(In millions)		
<i>Maxipime</i> and <i>Azactam</i> asset impairment	\$ 52.2	\$	\$
Severance, restructuring and other costs, net	28.6	4.3	11.8
Acquired in-process research and development costs		22.0	
Legal settlements and awards			(7.4)
Total other net charges	\$ 80.8	\$ 26.3	\$ 4.4

Refer to page 45 for additional discussion on other net charges from our Biopharmaceuticals business.

EDT (in millions)

	2007	2006	2005	% Increase/(Decrease)	
				2007/2006	2006/2005
Product revenue	\$ 274.0	\$ 263.1	\$ 238.5	4%	10%
Contract revenue	21.5	19.0	20.1	13%	(5)%
Total revenue	295.5	282.1	258.6	5%	9%

Operating expenses:					
Cost of sales	113.7	122.9	112.1	(7)%	10%
Selling, general and administrative expenses	44.4	39.3	28.1	13%	40%
Research and development expenses	48.4	47.4	39.5	2%	20%
Net gain on divestment of products and businesses			(0.3)		(100)%
Other net (gains)/charges	3.8	(46.6)		(108)%	
Total operating expenses	210.3	163.0	179.4	29%	(9)%
Operating income	\$ 85.2	\$ 119.1	\$ 79.2	(28)%	50%

Total Revenue

Total revenue for EDT was \$295.5 million in 2007, \$282.1 million in 2006 and \$258.6 million in 2005, and is analyzed below between product revenue and contract revenue.

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EDT product revenue is comprised of manufacturing revenue and royalties of \$269.5 million (2006: \$232.4 million; 2005: \$204.5 million) and amortized revenue related to Adalat/Avinza of \$4.5 million (2006: \$30.7 million; 2005: \$34.0 million). Refer to page 42 for additional discussion on EDT product revenue.

EDT contract revenue, which consists of research revenue and milestones from R&D activities performed on behalf of third parties, totaled \$21.5 million in 2007, \$19.0 million in 2006 and \$20.1 million in 2005. The fluctuations between years were primarily due to the timing of milestone receipts.

Cost of Sales

Cost of sales was \$113.7 million in 2007, compared to \$122.9 million in 2006 and \$112.1 million in 2005. The cost of sales as a percentage of revenue was 38% for 2007, 44% for 2006 and 43% for 2005, resulting in a gross profit margin of 62% in 2007, 56% in 2006 and 57% in 2005. The fluctuation in the gross profit margin in 2007 as compared to 2006 and 2005 was principally a result of changes in product mix. Royalties continue to grow as a percentage of total manufacturing revenue and royalties. In 2007, our royalties were 47% of total manufacturing revenue and royalties (2006: 44%; 2005: 34%).

Selling, General and Administrative Expenses

SG&A expense was \$44.4 million in 2007, \$39.3 million in 2006 and \$28.1 million in 2005. The increase of 13% in 2007 from 2006 primarily reflects higher legal costs related to the protection of our intellectual property, which is partially offset by lower amortization charges as some EDT intangible assets were fully amortized in 2006. The increase of 40% in 2006 from 2005 primarily reflects the impact of the expensing of share-based compensation of \$3.9 million in 2006 (2005: \$Nil), and higher legal costs related to the protection of our intellectual property and contractual rights.

Research and Development

R&D expenses were \$48.4 million in 2007, \$47.4 million in 2006 and \$39.5 million in 2005. The increase of 2% in 2007 compared to 2006 and of 20% in 2006 compared to 2005 primarily reflects increased spend on proprietary programs and on identifying suitable collaborative products for the *NanoCrystal* technology.

Other Net Charges/(Gains)

	2007	2006
	(In millions)	
Severance, restructuring and other costs, net	\$ 3.8	\$ 3.2
Gain on arbitration award		(49.8)
Total other net charges/(gains)	\$ 3.8	\$ (46.6)

During 2007 and 2006, we incurred severance, restructuring and other costs of \$3.8 million and \$3.2 million, respectively, arising from the realignment of our resources to meet our current business structure.

In December 2006, we were awarded \$49.8 million following the conclusion of binding arbitration proceedings that were initiated against King with respect to an agreement to reformulate Sonata. This award was recognized as a gain

in 2006 and was received in January 2007.

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Our liquid and capital resources at December 31 were as follows (in millions):

	2007	2006	Increase/ (Decrease)
Cash and cash equivalents	\$ 423.5	\$ 1,510.6	(72)%
Restricted cash – current	20.1	23.2	(13)%
Investment securities – current	276.9	11.2	2,372%
Shareholders' equity/(deficit)	(234.7)	85.1	(376)%

We have historically financed our operating and capital resource requirements through cash flows from operations, sales of investment securities and borrowings. We consider all highly liquid deposits with an original maturity of three months or less to be cash equivalents. Our primary sources of funds as of December 31, 2007 consisted of cash and cash equivalents of \$423.5 million, which excludes restricted cash of \$20.1 million, and current investment securities of \$276.9 million.

At December 31, 2007, our shareholders' deficit was \$234.7 million, compared to shareholders' equity of \$85.1 million at December 31, 2006. The decrease is primarily due to the net loss incurred during the year. Our debt covenants do not require us to maintain or adhere to any specific financial ratios. Consequently, the shareholders' deficit has no impact on our ability to comply with our debt covenants.

Cash Flows Summary

	2007	2006	2005
		(In millions)	
Net cash used in operating activities	\$ (167.5)	\$ (241.5)	\$ (451.5)
Net cash provided by/(used in) investing activities	(318.1)	37.5	288.9
Net cash provided by/(used in) financing activities	(599.7)	629.3	(99.7)
Effect of exchange rate changes on cash	(1.8)	4.6	(4.6)
Net increase/(decrease) in cash and cash equivalents	(1,087.1)	429.9	(266.9)
Cash and cash equivalents at beginning of year	1,510.6	1,080.7	1,347.6
Cash and cash equivalents at end of year	\$ 423.5	\$ 1,510.6	\$ 1,080.7

The results of our cash flow activities for 2007 and 2006 are described below.

2007

Net cash used in operating activities was \$167.5 million in 2007. The primary components of cash used in operating activities were the net loss (adjusted to exclude non-cash charges and benefits) and changes in working capital accounts. Changes in working capital accounts provided a net cash inflow of \$15.5 million and include the increase in accounts receivable of \$30.1 million, the decrease in prepaid and other assets of \$60.3 million (principally related to the \$49.8 million arbitration award, which was paid by King in January 2007), the increase in inventory of \$7.4 million, and the net decrease of \$7.3 million in accounts payable and accrued and other liabilities.

Net cash used in investing activities was \$318.1 million in 2007. At December 31, 2007, all of Elan's liquid investments were invested in bank deposits and funds. In December 2007, due to dislocations in the capital markets, one of these funds was closed. As a result, the amount invested in this fund on the closure date of \$305.9 million (December 31, 2007: \$274.8 million) no longer qualified as cash and cash equivalents and was reclassified as an investment. Since December 31, 2007, Elan has reduced the amount invested in this fund to approximately \$100 million and has moved approximately \$175 million into bank deposits and United States treasury funds. Net cash used in investing activities in 2007 also includes \$12.3 million related to the purchase of investment securities and \$26.1 million related to the purchase of property, plant and equipment, offset by net proceeds of \$31.3 million

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from the sale of investment securities. As of December 31, 2007, we did not have any significant commitments to purchase property, plant and equipment, except for committed additional capital expenditures of \$12.7 million.

Net cash used in financing activities totaled \$599.7 million in 2007, primarily reflecting the repayment of loans and capital lease obligations of \$629.6 million (principally the redemption of the \$613.2 million of the Athena Notes), offset by \$28.2 million of net proceeds from employee stock issuances.

We believe that our current liquid asset position will be sufficient to meet our needs for at least the next 12 months. For additional information, See Item 11. Quantitative and Qualitative Disclosures about Market Risk.

2006

Net cash used in operating activities was \$241.5 million in 2006. The primary components of cash used in operating activities were the net loss (adjusted to exclude non-cash charges and benefits) and changes in working capital accounts. The changes in working capital accounts include the net increase in trade receivables and prepaid and other assets of \$82.0 million (principally \$49.8 million arbitration award entered in our favor and against King in December 2006, which was paid by King in January 2007), the increase in inventory of \$7.1 million, and the net increase of \$15.2 million in accounts payable and accrued and other liabilities.

Net cash provided by investing activities was \$37.5 million in 2006. The major component of cash generated from investing activities includes net proceeds of \$14.1 million from the sale of investment securities and \$54.2 million from the sale of the European rights to *Prialt* (net of transaction costs), partially offset by \$29.9 million for capital expenditures.

Net cash provided by financing activities totaled \$629.3 million in 2006, primarily reflecting the net proceeds of \$602.8 million from the issuances of \$465.0 million of the 8.875% Notes and \$150.0 million of the Floating Rate Notes due 2013, and \$29.8 million of net proceeds from employee stock issuances, offset by \$5.7 million related to the repayment of loans and capital lease obligations.

Debt Facilities

At December 31, 2007, we had outstanding debt of \$1,765.0 million, which consisted of the following (in millions):

7.75% Notes due 2011	\$ 850.0
Floating Rate Notes due 2011	300.0
8.875% Notes due 2013	465.0
Floating Rate Notes due 2013	150.0
	\$ 1,765.0

During 2007, as of December 31, 2007, and, as of the date of filing of this Form 20-F, we were not in violation of any of our debt covenants. Our debt covenants do not require us to maintain or adhere to any specific financial ratios. Consequently, the shareholders' deficit of \$234.7 million at December 31, 2007 has no impact on our ability to comply with our debt covenants. For additional information regarding our outstanding debt, refer to Note 18 to the Consolidated Financial Statements.

Commitments and Contingencies

For information regarding commitments and contingencies, please refer to Notes 26 and 27 to the Consolidated Financial Statements.

Capital Expenditures

We believe that our current and planned manufacturing, research, product development and corporate facilities will adequately meet our current and projected needs. In June and December 2007, we entered into lease agreements for two additional buildings in South San Francisco, which are currently under construction. The lease term for the first building is expected to commence in the first quarter of 2009 and the second in the first quarter of 2010. The buildings will be

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utilized for our R&D, sales and administrative functions. We may invest a significant amount of our cash and resources into building a biologics manufacturing facility for AAB-001. We will use our resources to make capital expenditures as necessary from time to time and also to make investments in the purchase or licensing of products and technologies and in marketing and other alliances with third parties to support our long-term strategic objectives.

C. Research and Development, Patents and Licenses, etc.

See Item 4.B. Business Overview for information on our R&D, patents and licenses, etc.

D. Trend Information

See Item 4.B. Business Overview and Item 5.A. Operating Results for trend information.

E. Off-Balance Sheet Arrangements

As of December 31, 2007, we have no unconsolidated special purpose financing or partnership entities or other off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, that are material to investors.

F. Tabular Disclosure of Contractual Obligations

The following table sets out, at December 31, 2007, our main contractual obligations due by period for debt principal and interest repayments and capital and operating leases. These represent the major contractual, future payments that may be made by Elan. The table does not include items such as expected capital expenditures on plant and equipment, future investments in financial assets or future milestones we may elect to pay Biogen Idec. As of December 31, 2007, the directors had authorized capital expenditures, which had been contracted for, of \$12.7 million (2006: \$5.6 million). As of December 31, 2007, the directors had authorized capital expenditures, which had not been contracted for, of \$1.8 million (2006: \$7.3 million).

	Total	Less Than 1 Year	1-3 Years (in millions)	3-5 Years	More Than 5 Years
7.75% Notes due 2011	\$ 850.0	\$	\$	\$ 850.0	\$
Floating Rate Notes due 2011	300.0			300.0	
8.875% Notes due 2013	465.0				465.0
Floating Rate Notes due 2013	150.0				150.0
Total debt principal obligations	1,765.0			1,150.0	615.0
Debt interest payments ⁽¹⁾	685.5	147.7	295.5	191.3	51.0
Operating lease obligations	275.8	17.1	42.0 ⁽²⁾	57.6	159.1
Total contractual obligations	\$ 2,726.3	\$ 164.8	\$ 337.5	\$ 1,398.9	\$ 825.1

- (1) *The Floating Rate Notes due 2011 and Floating Rate Notes due 2013 bear interest at a rate, adjusted quarterly, equal to three-month London Interbank Offer Rate (LIBOR) plus 4.0% and 4.125%, respectively. To calculate our interest payment obligation, we used the LIBOR at December 31, 2007.*
- (2) *Net of estimated incentives for tenant leasehold improvements of \$10.0 million and \$2.8 million in 2009 and 2010, respectively.*

At December 31, 2007, we had liabilities related to unrecognized tax benefits of \$5.8 million. It is not possible to accurately assess the timing of or the amount of any settlement in relation to these liabilities.

At December 31, 2007, we had commitments to invest \$1.8 million (2006: \$2.4 million) in healthcare managed funds.

Under our collaboration agreement with Biogen Idec, if global in-market net sales of *Tysabri* are, on average, for four calendar quarters, in excess of \$125 million per calendar quarter, then we may elect to make a milestone payment to Biogen Idec of \$75 million in order to maintain our percentage share of *Tysabri* at approximately 50% for annual global in-market net sales of *Tysabri* that are in excess of \$700 million. Additionally, if we have made this

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first milestone payment, then we may elect to pay a further \$50 million milestone to Biogen Idec if global in-market net sales of *Tysabri* are, on average, for four calendar quarters, in excess of \$200 million per calendar quarter, in order to maintain our percentage share of *Tysabri* at approximately 50% for annual global in-market net sales of *Tysabri* that are in excess of \$1.1 billion. Should we elect not to make the first milestone payment of \$75 million, then our percentage share of *Tysabri* will be reduced to approximately 35% for annual global in-market net sales of *Tysabri* exceeding \$700 million. If we elect to make the first milestone payment, but not the second milestone payment, then our percentage share of *Tysabri* will be reduced to approximately 35% for annual global net sales of *Tysabri* exceeding \$1.1 billion.

In disposing of assets or businesses, we often provide customary representations, warranties and indemnities (if any) to cover various risks. We do not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, we have no reason to believe that these uncertainties would have a material adverse effect on our financial condition or results of operations.

The two major rating agencies covering our debt rate it as sub-investment grade debt. None of our debt has a rating trigger that would accelerate the repayment date upon a change in rating.

Our debt ratings as of December 31, 2007 were as follows:

	Standard & Poor's	Moody's Investors Service
7.75% Notes	B	B3
Floating Rate Notes due 2011	B	B3
8.875% Notes	B	B3
Floating Rate Notes due 2013	B	B3

We believe that we have sufficient current cash, liquid resources, realizable assets and investments to meet our liquidity requirements for at least the next 12 months. Longer-term liquidity requirements and debt repayments will need to be met out of available cash resources, future operating cash flows, financial and other asset realizations and future financing. However, events, including a material deterioration in our operating performance as a result of our inability to sell significant amounts of *Tysabri*, material adverse legal judgments, fines, penalties or settlements arising from litigation or governmental investigations, failure to successfully develop and receive marketing approval for products under development (in particular, AAB-001) or the occurrence of other circumstances or events described under Risk Factors, could materially adversely affect our ability to meet our longer-term liquidity requirements.

We commit substantial resources to our R&D activities, including collaborations with third parties such as Biogen Idec for the development of *Tysabri* and Wyeth for Alzheimer's disease. We expect to commit significant cash resources to the development and commercialization of products in our development pipeline.

We continually evaluate our liquidity requirements, capital needs and availability of resources in view of, among other things, alternative uses of capital, debt service requirements, the cost of debt and equity capital and estimated future operating cash flow. We may raise additional capital, restructure or refinance outstanding debt, repurchase material amounts of outstanding debt (including the 7.75% Notes and the Floating Rate Notes due 2011 and the 8.875% Notes and the Floating Rate Notes due 2013), consider the sale of interests in subsidiaries, investment securities or other assets or the rationalization of products, or take a combination of such steps or other steps to increase or manage our liquidity and capital resources. Any such actions or steps, including any repurchase of outstanding debt, could be

material. In the normal course of business, we may investigate, evaluate, discuss and engage in future company or product acquisitions, capital expenditures, investments and other business opportunities. In the event of any future acquisitions, capital expenditures, investments or other business opportunities, we may consider using available cash or raising additional capital, including the issuance of additional debt.

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Item 6. Directors, Senior Management and Employees.

A. Directors and Senior Management

Directors

Kyran McLaughlin (63)

Non-Executive Chairman, Member of the Nominating Committee

Mr. McLaughlin was appointed a director of Elan in January 1998 and was appointed chairman of Elan in January 2005. He is deputy chairman at Davy Stockbrokers, Ireland's largest stockbroker firm. He is also a director of Ryanair Holdings, plc and is a director of a number of private companies.

Floyd Bloom, MD (71)

Non-Executive Director, Member of the Science and Technology Committee

Dr. Bloom was appointed a director of Elan in July 2007. He is the retired chairman of the Scripps Research Department of Neuropharmacology and was the previous editor-in-chief of *Science*. He also served as president of the American Association for the Advancement of Science (2002-2003) and was chairman of its board of directors (2003-2004). A professor at Scripps Research since 1983, Dr. Bloom serves as chairman of the Department of Neuropharmacology (1989-2000; 2002 to present). A member of the National Academy of Science since 1977, Dr. Bloom is the recipient of numerous prizes for his contributions to science.

Shane Cooke (45)

Executive Director, Chief Financial Officer and Head of Elan Drug Technologies

Mr. Cooke was appointed a director of Elan in May 2005. He joined the company as executive vice president and chief financial officer (CFO) in July 2001, and was additionally appointed head of EDT in May 2007. Prior to joining Elan, Mr. Cooke was chief executive of Pembroke Capital Limited, an aviation leasing company, and prior to that held a number of senior positions in finance in the banking and aviation industries. Mr. Cooke is a chartered accountant and a graduate of University College Dublin.

Laurence G. Crowley (70)

Non-Executive Director, Member of the Leadership Development and Compensation Committee, Member of the Audit Committee

Mr. Crowley was appointed a director of Elan in March 1996. He was governor of the Bank of Ireland until his retirement in July 2005. He is presently chairman of Ecocem Ltd. and Realex Payments and is a director of a number of private companies and not-for-profit organizations. Mr. Crowley is a chartered accountant.

Lars Ekman, MD, PhD (58)

Non-Executive Director, Chairman of the Science and Technology Committee

Dr. Ekman was appointed a director of Elan in May 2005 and joined Elan as executive vice president and president, global R&D, in 2001. He retired from his executive position in Elan on December 31, 2007. Prior to joining Elan, he was executive vice president, R&D, at Schwarz Pharma AG since 1997. From 1984 to 1997, Dr. Ekman was employed in a variety of senior scientific and clinical functions at Pharmacia (now Pfizer). Dr. Ekman is a board certified surgeon with a PhD in experimental biology and has held several clinical and academic positions in both the United States and Europe. He obtained his PhD and MD from the University of Gothenburg, Sweden.

Jonas Frick (50)

Non-Executive Director, Member of the Science and Technology Committee

Mr. Frick was appointed a director of Elan in September 2007. He is the former chief executive officer (CEO) of Scandinavian Life Science Ventures (SLS Ventures). He was the chief executive officer and president of Medivir AB and served in senior executive positions in Pharmacia's international businesses in the central nervous system and autoimmune areas across Italy, Sweden and Japan. He is a founding member of the Swedish Biotechnology Industry Organization.

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Ann Maynard Gray (62)

Non-Executive Director, Member of the Nominating Committee

Ms. Gray was appointed a director of Elan in February 2001. She was formerly president of Diversified Publishing Group of Capital Cities/ABC, Inc. Ms. Gray is also a director of Duke Energy Corporation and The Phoenix Companies, Inc.

Gary Kennedy (50)

Non-Executive Director, Chairman of the Audit Committee

Mr. Kennedy was appointed a director of Elan in May 2005. From May 1997 to December 2005, he was group director, finance & enterprise technology, at Allied Irish Banks, plc (AIB) and a member of the main board of AIB and was also on the board of M&T, AIB's associate in the United States. Prior to that, Mr. Kennedy was group vice president at Nortel Networks Europe after starting his management career at Deloitte & Touche. He served on the board of the Industrial Development Authority of Ireland for 10 years until he retired in December 2005. He is a director of Finance Ireland plc, the NUI Galway Development Board and a number of private companies. Mr. Kennedy is a chartered accountant.

Giles Kerr (48)

Non-Executive Director, Member of the Audit Committee

Mr. Kerr was appointed a director of Elan in September 2007. He is currently the director of finance with the University of Oxford, England, and a fellow of Keble College. He is also a director and chairman of the audit committee of Victrex plc and a director of BTG plc, Isis Innovation Ltd and a number of private companies. Previously, he was the group finance director and chief financial officer of Amersham plc, and prior to that, he was a partner with Arthur Andersen in the United Kingdom.

G. Kelly Martin (49)

Executive Director, President and CEO

Mr. Martin was appointed a director of Elan in February 2003 following his appointment as president and chief executive officer. He was formerly president of the International Private Client Group and a member of the executive management and operating committee of Merrill Lynch & Co., Inc. He spent over 20 years at Merrill Lynch & Co., Inc. in a broad array of operating and executive responsibilities on a global basis.

Kieran McGowan (64)

Non-Executive Director, Lead Independent Director, Chairman of the Nominating Committee

Mr. McGowan was appointed a director of Elan in December 1998. From 1990 until his retirement in December 1998, he was chief executive of the Industrial Development Authority of Ireland. He is chairman of the governing authority of University College Dublin and CRH, plc, and a director of Irish Life and Permanent, plc, United Drug, plc, Enterprise Ireland, and a number of private companies.

William Rohn (64)

Non-Executive Director, Member of the Leadership, Development and Compensation Committee

Mr. Rohn was appointed a director of Elan in May 2006. He is currently vice chairman of Raven Biotechnologies, Inc., and a director of Metabasis Therapeutics, Inc., Cerus Corp and Pharmacyclics, Inc. Previously, he was chief operating officer of Biogen Idec until January 2005 and prior thereto president and chief operating officer of Idec

Pharmaceutical Corporation from 1993.

Dennis J. Selkoe, MD (64)

Non-Executive Director, Chairman of the Leadership Development and Compensation Committee, Member of the Science and Technology Committee

Dr. Selkoe was appointed a director of Elan in July 1996, following our acquisition of Athena Neurosciences, where he served as a director since July 1995. Dr. Selkoe was a founder of Athena Neurosciences. Dr. Selkoe, a neurologist, is a professor of neurology and neuroscience at Harvard Medical School. He also serves as co-director of the Center for Neurologic Diseases at The Brigham and Women's Hospital.

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Jeffrey Shames (52)

Non-Executive Director, Member of the Audit Committee

Mr. Shames was appointed a director of Elan in July 2007. He is the retired chairman and chief executive officer of MFS Investment Management. Mr. Shames is currently an executive in residence at the Massachusetts Institute of Technology (MIT) and has served on both the visiting committee and the Dean's Advisory Board of the Sloan School at MIT. He is the chairman of the Board of Trustees of Berklee College of Music; a member of the Board of Trustees of City Year (a youth service organization); co-founder and member of the Board of Hurricane Voices, a not-for profit breast cancer foundation; and trustee of the XPrize Foundation.

Senior Management

Menghis Bairu, MD (47)

Senior Vice President, Head of International

Dr. Bairu was appointed senior vice president and head of international for all of Elan's biopharmaceutical activities outside the United States in May 2007. He joined Elan in 2004 and had served as vice president and head of global medical affairs and as senior director in charge of the regional medical scientists. Prior to joining Elan, Dr. Bairu worked at Genentech, Inc. in various commercial, clinical and managed care roles. He received his undergraduate degree in business administration from Instituto VII Tecnico Commerciale in Milan, Italy, and attended the Universita Statale, Facoltà di Medicina e Chirurgia (Faculty of Medicine and Surgery) in Milan, where he received his Medical Degree.

James Callaway, PhD (51)

Senior Vice President, Head of Immunotherapy AD Clinical Programs

Dr. Callaway was appointed senior vice president, head of immunotherapy Alzheimer's disease clinical programs, in March 2004. Since joining Elan in 1995, Dr. Callaway has held several senior positions, including interim head of global development and vice president of biopharmaceutical development services. Prior to joining Elan, he worked at Bayer Pharmaceuticals. Dr. Callaway received his PhD in biological chemistry from University of California, Los Angeles, and a Bachelor of Science in chemistry from California State University, Chico.

Nigel Clerkin (34)

Senior Vice President, Finance and Group Controller

Mr. Clerkin was appointed senior vice president, finance and group controller in January 2004, having previously held a number of financial and strategic planning positions since joining Elan in January 1998. He is also our principal accounting officer. Mr. Clerkin is a chartered accountant and a graduate of Queen's University Belfast.

Richard Collier (54)

Executive Vice President and General Counsel

Mr. Collier joined Elan as executive vice president and general counsel in November 2004. Prior to joining Elan, Mr. Collier was senior counsel at Morgan, Lewis & Bockius LLP. Prior to joining Morgan Lewis, he was senior vice president and general counsel at Pharmacia (now Pfizer), after serving in that position at Pharmacia & Upjohn. Prior to his experience at Pharmacia, Mr. Collier spent 11 years at Rhone-Poulenc Rorer, Inc. Previously, he was in private practice after having served with the U.S. Federal Trade Commission and U.S. Department of Justice. Mr. Collier is a graduate of Temple University and earned his Juris Doctor at Temple University.

William F. Daniel (55)

Executive Vice President and Company Secretary

Mr. Daniel was appointed a director of Elan in February 2003 and served until July 2007. He has served as the company secretary since December 2001, having joined Elan in March 1994 as group financial controller. In July 1996, he was appointed group vice president, finance, group controller and principal accounting officer. From 1990 to 1992, Mr. Daniel was financial director of Xtravision, plc. Mr. Daniel is a chartered accountant and a graduate of University College Dublin.

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David W. Feigal, Jr, MD (58)

Senior Vice President, Head of Global Regulatory and Global Safety Surveillance

Dr. Feigal joined Elan as senior vice president, head of global regulatory and global safety surveillance in November 2006. Prior to joining Elan, he served most recently as a principal with NDA Partners, and prior thereto spent 12 years with the FDA. Before joining the FDA, Dr. Feigal worked for 10 years within the academic and hospital settings of the University of California in San Diego, San Francisco and Davis. Dr. Feigal holds a BA from University of Minnesota, an MD from Stanford University and a Master of Public Health from the University of California, Berkeley.

Allison Hulme, PhD (44)

Executive Vice President, Global Development

Dr. Hulme was appointed executive vice president, head of global development, in May 2007. From 2005 to 2007, Dr. Hulme was executive vice president, autoimmune, *Tysabri*, global development. Previously, Dr. Hulme held the positions of executive vice president, *Tysabri* business enterprise, and senior vice president, head of global development. Prior to joining Elan in October 1995, Dr. Hulme held several positions in clinical research at Glaxo Wellcome Pharmaceuticals (United Kingdom) and served as a lecturer at Luton University. She holds a degree in science from Luton University and earned her PhD from Cranfield Institute of Technology.

Karen S. Kim (45)

Executive Vice President, Corporate Strategy & Alliances, Communications, Branding and Specialty Business Group

Ms. Kim was appointed executive vice president, corporate strategy & alliances, communications, branding and specialty business group, in January 2005. She joined Elan in September 2003 as senior vice president, head of global corporate strategy and strategic alliances. Prior to joining Elan, Ms. Kim held senior management positions at Merrill Lynch & Co., which she joined in 1998, and where she was most recently head of client development in the International Private Client Group. Previously she held senior management positions at the Cambridge Group and The MAC Group/Gemini Consulting. She is a graduate of Wellesley College and earned her MBA from the Harvard Graduate School of Business Administration.

Ivan Lieberburg, MD, PhD (58)

Executive Vice President and Chief Medical Officer

Dr. Lieberburg is executive vice president and chief medical officer of Elan, where he has held a number of senior positions, most recently senior vice president of research. Prior to joining Athena Neurosciences in 1987, Dr. Lieberburg held faculty positions at the Albert Einstein College of Medicine and Mt. Sinai School of Medicine in New York. He received an AB from Cornell University and earned his PhD in Neurobiology from The Rockefeller University. Dr. Lieberburg was a postdoctoral fellow in Neurobiology at Rockefeller University. He earned his MD from the University of Miami. Dr. Lieberburg was a research endocrine fellow at the University of California, San Francisco.

Kathleen Martorano (46)

Executive Vice President, Strategic Human Resources

Ms. Martorano was appointed executive vice president, strategic human resources, and a member of the office of the chief executive officer, in January 2005. She joined Elan in May 2003 as senior vice president, corporate marketing and communications. Prior to joining Elan, Ms. Martorano held senior management positions at Merrill Lynch & Co., which she joined in 1996, and where she was most recently first vice president of marketing and communications for

the International Private Client Group. Previously, she held senior management positions with Salomon Brothers. Ms. Martorano holds a Bachelor of Science degree from Villanova University.

Johannes Roebbers, PhD (47)

Senior Vice President, Head of Biologic Strategy, Planning and Operations

Dr. Roebbers joined Elan as senior vice president, head of biologic strategy, planning and operations, in July 2007. Prior to joining Elan, Dr. Roebbers worked at Genentech. He joined Genentech when it acquired the Oceanside manufacturing facility from Biogen Idec in 2005, as he had been Biogen Idec's project leader for design,

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construction and start-up of the facility since 2001. Before joining Biogen Idec, Dr. Roebbers spent 11 years with Bayer Corporation. He received his Diplom-Ingenieur in mechanical engineering from RWTH Aachen in Aachen, Germany, and his PhD in chemical engineering from Clemson University.

Dale Schenk, PhD (50)

Executive Vice President and Chief Scientific Officer

Dr. Schenk was appointed Elan's executive vice president and chief scientific officer in September 2007. From 2003 to 2007, Dr. Schenk was senior vice president and Elan's chief scientific officer. From 1999 to 2003, Dr. Schenk was senior vice president of discovery research at Elan and, from 1998 to 1999, he was the company's vice president of neurobiology. Previously, Dr. Schenk was director of neurobiology for Athena Neurosciences from 1994 to 1998. Earlier at Athena, from 1987 to 1994, Dr. Schenk served as the leader of several research programs. Dr. Schenk earned his bachelor's degree in biology and a PhD in physiology and pharmacology from the University of California, San Diego.

Ted Yednock, PhD (50)

Executive Vice President, Head of Global Research

Dr. Yednock was appointed executive vice president, head of global research, in September 2007. Dr. Yednock joined Athena Neurosciences in 1990 to initiate work on MS. He has contributed to a number of research efforts since that time in the areas of both autoimmune and neurodegeneration, and has held a number of scientific and management positions within the organization, including senior vice president, head of global research, and vice president, biology. He earned his bachelor's degree in biology and chemistry from the University of Illinois and his PhD in immunology from the University of California, San Francisco.

B. Compensation

Executive Officers and Directors Remuneration

For the year ended December 31, 2007, all executive officers and outside directors as a group (19 persons) received total compensation of \$13.2 million.

We reimburse officers and outside directors for their actual business-related expenses. For the year ended December 31, 2007, an aggregate of \$0.2 million was accrued to provide pension, retirement and other similar benefits for directors and officers. We also maintain certain health and medical benefit plans for our employees in which our officers participate.

Officers serve at the discretion of the board of directors. No director or officer has a family relationship with any other director or officer.

Table of Contents**Directors Remuneration**

	Year Ended December 31					
	2007 Salary/Fees	2007 Annual Bonus	2007 Pension	2007 Benefit in Kind	2007 Total	2006 Total
Executive Directors:						
G. Kelly Martin	\$ 805,677	\$ 1,040,000 ⁽¹⁾	\$ 6,750	\$ 107,263	\$ 1,959,690	\$ 1,796,533 ⁽²⁾
Shane Cooke	594,922	721,000			1,315,922	1,234,147
William F. Daniel ⁽³⁾	217,583	252,000	25,621	11,768	506,972	626,486
Lars Ekman, MD, PhD ⁽⁴⁾	516,701		10,380	3,105,021 ⁽⁵⁾	3,632,102	984,800
Total	2,134,883	2,013,000	42,751	3,224,052	7,414,686	4,641,966
Non-Executive Directors:						
Kyran McLaughlin	300,000				300,000	300,000
Floyd Bloom, MD ⁽⁶⁾	31,481				31,481	
Laurence G. Crowley	75,908				75,908	67,500
Jonas Frick ⁽⁷⁾	16,462				16,462	
Alan R. Gillespie, CBE, PhD ⁽⁸⁾	29,846				29,846	75,000
Ann Maynard Gray	67,500				67,500	67,500
Gary Kennedy	73,711				73,711	67,500
Giles Kerr ⁽⁷⁾	16,462				16,462	
Kieran McGowan	88,356				88,356	87,500
William R. Rohn	67,500				67,500	38,101
Dennis J. Selkoe, MD	137,500 ⁽⁹⁾				137,500	128,878
Jeffrey Shames ⁽⁶⁾	34,606				34,606	
Total	\$ 3,074,215	\$ 2,013,000	\$ 42,751	\$ 3,224,052	\$ 8,354,018	\$ 5,473,945

⁽¹⁾ On February 14, 2008, Mr. Martin waived his 2007 performance cash bonus, which would have been paid in 2008, in exchange for the grant of a stock option exercisable for 73,874 Ordinary Shares with an exercise price of \$25.01 per share. The stock option was granted with a fair value of \$1,040,000. Mr. Martin also received an annual stock option grant exercisable for 255,716 Ordinary Shares on the same date. The options will vest at a rate of 25% per year for 4 years and will expire 10 years from the date of grant.

⁽²⁾ On February 21, 2007, Mr. Martin waived his 2006 performance cash bonus, which would have been paid in 2007, in exchange for the grant of a stock option exercisable for 101,746 Ordinary Shares with an exercise price of \$13.95 per share. The stock option was granted with a fair value of \$880,000. Mr. Martin also received an annual stock option grant exercisable for 393,109 Ordinary Shares on the same date. The options will vest at a rate of 25% per year for 4 years and will expire 10 years from the date of grant.

⁽³⁾ Retired as director on July 1, 2007; remuneration was pro-rated for the period from January 1, 2007 to July 1, 2007.

- (4) *Retired as executive vice president on December 31, 2007 and will continue to serve as director.*
- (5) *Incorporates a severance payment of \$2,500,000 and a cash payment made in respect of RSUs forfeited. See Item 7.B. Related Party Transactions for additional information.*
- (6) *Appointed as directors on July 1, 2007.*
- (7) *Appointed as directors on September 13, 2007.*
- (8) *Retired as director on May 24, 2007.*
- (9) *Includes fees of \$50,000 in 2007 and \$50,000 in 2006 under a consultancy agreement. See Item 7.B. Related Party Transactions for additional information.*

Payments to a former director

On July 1, 2003, we entered into a pension agreement with Mr. John Groom, a former director of Elan Corporation, plc, whereby we shall pay him a pension of \$200,000 per annum, monthly in arrears, until May 16, 2008 in respect of his former senior executive roles.

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C. Board Practices

The Board

The roles of the chairman and CEO are separated. The chairman of the board is responsible for the leadership and management of the board. Our CEO is responsible for the operation of the business of the Company. Other significant commitments of the chairman are set out in Item 6.A. Directors and Senior Management. These commitments did not change during 2007.

The board regularly reviews its responsibilities and those of its committees and management. The board meets regularly throughout the year, and all of the directors have full and timely access to the information necessary to enable them to discharge their duties.

Directors are provided with extensive induction materials on appointment and meet with key executives with a particular focus on ensuring non-executive directors are fully informed on issues of relevance to Elan and its operations. All directors are encouraged to update and refresh their skills and knowledge, for example, through attending courses on technical areas or external briefings for non-executive directors.

All directors have access to the advice and services of the company secretary. The company secretary supports the chairman in ensuring the board functions effectively and fulfills its role. He is secretary to the Audit Committee, Leadership Development and Compensation Committee (LDCC), Nominating and Governance Committee (NGC) and Science and Technology Committee and ensures compliance with applicable rules and regulations, as well as providing advice on a range of issues to commercial colleagues.

The board has reserved certain matters to its exclusive jurisdiction, thereby maintaining control of the Company and its future direction. All directors are appointed by the board, as nominated by its NGC, and subsequently elected by shareholders. Procedures are in place whereby directors and committees, in furtherance of their duties, may take independent professional advice, if necessary, at our expense. The board held eight scheduled meetings during 2007.

Our guidelines require that the board will conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively. An evaluation of the performance of the board, the board committees and individual directors was conducted during the year by the lead independent director through meetings with each member of the board. The results were presented to the nominating and governance committee and to the board. The board concluded that it and its committees had operated satisfactorily during the past year.

The board has delegated authority over certain areas of our activities to four standing committees, as more fully described below.

For additional information, see Items 7.B. Related Party Transactions and 10.B. Memorandum and Articles of Association.

Independence of Directors

Under our guidelines, two-thirds of the board are required to be independent. At the year-end, the board included 11 independent, non-executive directors who constitute in excess of two-thirds of the board. We adopted a definition of independence based on the rules of the New York Stock Exchange (NYSE), the exchange on which the majority of our shares are traded. For a director to be considered independent, the board must affirmatively determine that he or she has no material relationship with the Company. The specific criteria that affect independence are set out in the Company's corporate governance guidelines and include former employment with the Company, former employment

with the Company's independent auditors, receipt of compensation other than directors' fees, material business relationships and interlocking directorships.

In December 2007, the board considered the independence of each non-executive director and considers that all the then non-executive directors were independent in character and judgment and there are no relationships or circumstances that are likely to affect their independent judgment.

In reaching this conclusion, the board gave due consideration to participation by board members in our equity compensation plans. The board also considered the positions of Mr. McLaughlin, Chairman, Mr. Crowley and

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Dr. Selkoe, who have served as non-executive directors for in excess of nine years. Additionally, Dr. Selkoe has an ongoing consultancy agreement with the company, which is set out in detail in Item 7.B. Related Party Transactions. It is the board's view that each of these non-executive directors discharges his duties in a thoroughly independent manner and constructively and appropriately challenges the executive directors and the board. For this reason, the board considers that they are independent.

Audit Committee

The Audit Committee, composed entirely of independent non-executive directors, helps the board in its general oversight of the Company's accounting and financial reporting practices, internal controls and audit functions, and is directly responsible for the appointment, compensation and oversight of the work of our independent auditors. The members of the committee are Mr. Kennedy, Chairman, Mr. Crowley, Mr. Kerr (appointed January 31, 2008) and Mr. Shames. Mr. McGowan resigned from the Audit Committee on January 31, 2008. Mr. Kennedy qualifies as an audit committee financial expert. The Audit Committee held nine meetings during 2007. For additional information on the Audit Committee, please refer to Item 16.A. Audit Committee Financial Expert and Item 16.C. Report of the Audit Committee.

Leadership Development and Compensation Committee

The LDCC, composed entirely of independent non-executive directors, reviews our compensation philosophy and policies with respect to executive compensation, fringe benefits and other compensation matters. The committee determines the compensation of the chief executive officer and other executive directors and reviews the compensation of the other members of the executive management. The members of the committee are Dr. Selkoe, Chairman, Mr. Crowley and Mr. Rohn. The committee held four meetings during 2007. Further information about the work of the LDCC is set out in the Report of the Leadership Development and Compensation Committee on page 64.

Nominating and Governance Committee

The NGC, composed entirely of independent non-executive directors, reviews on an ongoing basis the membership of the board of directors and of the board committees and the performance of the directors. It recommends new appointments to fill any vacancy that is anticipated or arises on the board of directors. The committee reviews and recommends changes in the functions of the various committees of the board. The guidelines and the charter of the committee set out the manner in which the performance evaluation of the board, its committees and the directors is to be performed and by whom. In December 2007, it received a report from the lead independent director on his evaluation of the performance of the board, the board committees and individual directors, which he conducted through meetings with each member of the board. The members of the committee are Mr. McGowan, Chairman, Ms. Gray and Mr. McLaughlin. The committee held five meetings during 2007.

Science and Technology Committee

The Science and Technology Committee advises the board in its oversight of matters pertaining to our research and technology strategy and provides a perspective on those activities to the board. It does so by reviewing the discovery approaches within our internal research effort and external innovation network and by reviewing internal and external technology capabilities against long-term trends and advancements. The members of the committee are Dr. Ekman, Chairman, Dr. Bloom, Mr. Frick (appointed January 31, 2008) and Dr. Selkoe. The committee held two meetings during 2007.

Table of Contents**Board and Board Committee Meetings**

The number of scheduled board and board committee meetings held and attended by each director during the year was as follows:

	Board	Audit Committee	LDCC	Nominating & Governance Committee	Science & Technology Committee
Kyran McLaughlin	8/8			5/5	
Floyd Bloom, MD ⁽¹⁾	2/3				1/2
Shane Cooke	8/8				
Laurence G. Crowley	7/8	3/4	3/4		
William F. Daniel ⁽²⁾	8/8	9/9 ⁽³⁾	4/4 ⁽³⁾	5/5 ⁽³⁾	0/2 ⁽³⁾
Lars Ekman, MD, PhD	7/8				2/2
Jonas Frick ⁽⁴⁾	1/1				
Alan R. Gillespie, CBE, PhD ⁽⁵⁾	4/4	5/5			
Ann Maynard Gray	8/8			5/5	
Gary Kennedy	7/8	8/9			
Giles Kerr ⁽⁴⁾	1/1				
G. Kelly Martin	8/8				
Kieran McGowan	8/8	8/9		5/5	
William R. Rohn	7/8		4/4		
Dennis J. Selkoe, MD	8/8		4/4		2/2
Jeffrey Shames ⁽¹⁾	2/3	3/4			

⁽¹⁾ Appointed as directors on July 1, 2007.

⁽²⁾ Retired as director on July 1, 2007.

⁽³⁾ William F. Daniel was secretary of these committees for the full-year 2007.

⁽⁴⁾ Appointed as directors on September 13, 2007.

⁽⁵⁾ Retired as director on May 24, 2007.

Relations with Shareholders

We communicate regularly with our shareholders throughout the year, specifically following the release of quarterly and annual results, and after major developments. Our Annual General Meetings, quarterly conference calls and presentations at healthcare investor conferences are webcast and are available on our website (www.elan.com). The board periodically receives presentations on investor perceptions.

The principal forum for discussion with shareholders is the Annual General Meeting and shareholder participation is encouraged. Formal notification, together with an explanation of each proposed resolution, is sent to shareholders at least 21 calendar days in advance of the Annual General Meeting. At the meeting, the CEO provides a summary of the

period's events after which the board and senior management are available to answer questions from shareholders. All directors normally attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended.

In accordance with the Combined Code recommendations, the Company counts all proxy votes. On each resolution that is voted on with a show of hands, the Company indicates the level of proxies lodged, the number of votes for and against each resolution and the number of votes withheld.

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Going Concern

The directors, having made inquiries, believe that we have adequate resources to continue in operational existence for at least the next 12 months and that it is appropriate to continue to adopt the going concern basis in preparing our Consolidated Financial Statements.

Internal Control

The board of directors has overall responsibility for our system of internal control and for monitoring its effectiveness. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures that have been established to provide effective internal control include:

A clear focus on business objectives is set by the board having considered the risk profile of Elan;

A formalized risk reporting system, with significant business risks addressed at each board meeting;

A clearly defined organizational structure under the day-to-day direction of our chief executive officer. Defined lines of responsibility and delegation of authority have been established within which our activities can be planned, executed, controlled and monitored to achieve the strategic objectives which the board has adopted for us;

A comprehensive system for reporting financial results to the board, including a budgeting system with an annual budget approved by the board;

A system of management and financial reporting, treasury management and project appraisal – the system of reporting covers trading activities, operational issues, financial performance, working capital, cash flow and asset management; and

To support our system of internal control, we have separate Corporate Compliance, Internal Audit and Internal Control Departments. Each of these departments reports periodically to the Audit Committee. The Internal Control function is primarily responsible for the Company's compliance with Section 404 of the Sarbanes-Oxley Act 2002.

The directors reviewed our system of internal control and also examined the full range of risks affecting us and the appropriateness of the internal control structures to manage and monitor these risks. This process involved a confirmation that appropriate systems of internal control were in place throughout the financial year and up to the date of signing of these financial statements. It also involved an assessment of the ongoing process for the identification, management and control of the individual risks and of the role of the various risk management functions and the extent to which areas of significant challenges facing us are understood and are being addressed. No material unaddressed issues emerged from this assessment.

Please refer to Item 15. Controls and Procedures, for management's annual report on internal control over financial reporting.

Report of the Leadership Development and Compensation Committee

The terms of reference for the committee are to determine the compensation, terms and conditions of employment of the chief executive officer and other executive directors and to review the recommendations of the chief executive officer with respect to the remuneration and terms and conditions of employment of our senior management. The

committee also exercises all the powers of the board of directors to issue Ordinary Shares on the exercise of share options and vesting of RSUs and to generally administer our equity award plans.

Each member of the committee is nominated to serve for a three-year term subject to a maximum of two terms of continuous service.

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Remuneration Policy

Our policy on executive directors' remuneration is to set remuneration levels that are appropriate for our senior executives having regard to their substantial responsibilities, their individual performance and our performance as a whole. The committee sets remuneration levels after reviewing remuneration packages of executives in the pharmaceutical and biotech industries. The committee takes external advice from independent benefit consultants and considers Section B of the Code of Best Practice of The Combined Code as issued by the London and Irish Stock Exchanges.

The typical elements of the remuneration package for executive directors include basic salary and benefits, annual cash incentive bonus, pensions and participation in equity award plans. Non-executive directors are compensated with fee payments and equity awards (with additional payments where directors are members of board committees) and are reimbursed for travel expenses to and from board meetings.

The committee grants equity awards to encourage identification with shareholders' interests.

Executive Directors' Basic Salary

The basic salaries of executive directors are reviewed annually having regard to personal performance, company performance and market practice.

Annual Cash Incentive Bonus

Annual cash incentive bonuses, which are not pensionable, are paid to executive directors based on the recommendation of the committee. Bonus determination is not based on specific financial or operational targets, but on individual and company performance.

Long Term Incentive Plan

On May 25, 2006, our shareholders approved the Elan Corporation, plc 2006 Long Term Incentive Plan (2006 LTIP). It is the committee's policy, in common with other companies operating in the pharmaceutical and biotech industries, to award share options and RSUs to management and employees, taking into account the best interests of the Company. The equity awards generally vest between one and four years and do not contain any performance conditions other than service.

Employee Equity Purchase Plans

In June 2004, our shareholders approved a qualified Employee Equity Purchase Plan (U.S. Purchase Plan), under Sections 421 and 423 of the Internal Revenue Code (IRC), which became effective on January 1, 2005 for eligible employees based in the United States. The plan allows eligible employees to purchase common stock at 85% of the lower of the fair market value at the start of the offering period or the fair market value on the last trading day of the offering period. Purchases are limited to \$25,000 (fair market value) per calendar year, 1,000 shares per offering period, and subject to certain IRC restrictions.

The board of directors approved the Irish Sharesave Option Scheme 2004 and UK Sharesave Option Plan 2004, effective January 1, 2005, for employees based in Ireland and the United Kingdom, respectively (the Irish and UK Sharesave Plans). The Irish and UK Sharesave Plans allow eligible employees to purchase Ordinary Shares at no lower than 85% of the fair market value at the start of the 36 month saving period. Eligible employees could save up to 320 per month under the Irish Scheme or £250 under the U.K. Plan, which entitles them to an option to buy

common stock at \$22.29 for a period of six months from February 1, 2008.

In May 2006, our shareholders approved an increase of 1,500,000 shares in the number of shares available to employees to purchase in accordance with the terms of the U.S. Purchase Plan. In total, 3,000,000 shares have been reserved for issuance under the Irish and U.K. Sharesave Plans and U.S. Purchase Plan combined. In 2007, 272,931 shares (2006: 394,533 shares) were issued under the U.S. Purchase Plan and as of December 31, 2007, 1,723,993 shares (2006: 2,006,966 shares) were reserved for future issuance under the U.S. Purchase Plan and Irish and U.K. Sharesave Plans.

Table of Contents*Approved Profit Sharing Scheme*

Elan also operates an Irish Revenue Commissioners approved profit sharing scheme, which permits employees and executive directors who meet the criteria laid down in the scheme to allocate a portion of their annual bonus to purchase shares. Participants may elect to take their bonus in cash subject to normal income tax deductions or may elect to have the bonus amount (subject to certain limits) paid to the independent trustees of the scheme who use the funds to acquire shares. In addition, participants may voluntarily apply a certain percentage (subject to certain limits) of their gross basic salary towards the purchase of shares in a similar manner. The shares must be held by the trustees for a minimum of two years after which participants may dispose of the shares but will be subject to normal income taxes until the shares have been held for a minimum of three years.

D. Employees

See Item 4.B. Business Overview Employees for information on our employees.

E. Share Ownership*Directors and Secretary's Ordinary Shares*

The beneficial interests of those persons who were directors and the secretary of Elan Corporation, plc at December 31, 2007, including their spouses and children under 18 years of age, were as follows:

	Ordinary Shares; Par Value 5 Cents Each	
	2007⁽⁴⁾	2006⁽⁴⁾
Directors		
Kyran McLaughlin	190,000	190,000
Floyd Bloom, MD ⁽¹⁾		
Shane Cooke	183,144	250,000
Laurence G. Crowley	12,000	12,000
Lars Ekman, MD, PhD	33,496	30,100
Jonas Frick ⁽²⁾		
Ann Maynard Gray	3,500	3,500
Gary Kennedy	2,800	2,800
Giles Kerr ⁽²⁾		
G. Kelly Martin	183,150	246,500
Kieran McGowan	1,200	1,200
William Rohn	13,000	3,000
Dennis J. Selkoe, MD	163,175	163,175
Jeffrey Shames ⁽¹⁾		
Secretary		
William Daniel ⁽³⁾	53,108	50,000

⁽¹⁾ *Appointed as directors on July 1, 2007.*

⁽²⁾ *Appointed as directors on September 13, 2007.*

⁽³⁾ *Retired as director on July 1, 2007.*

(4) Individually less than one percent of total Ordinary Shares outstanding.

Directors and Secretary's Options and Restricted Stock Units

Date of Grant	At		Granted	Exercised Market or Price Vested/ at		At	Earliest Exercisable Date	Expire
	December 31, 2006	Exercise Price		Cancelled	Exercise Date			
ughlin April 30, 1999	10,000	\$ 25.81		10,000	\$		April 30, 2002	Apr
March 2, 2001	5,000	54.85				5,000	March 2, 2002	Ma
March 10, 2004	40,000	16.27				40,000	March 10, 2005	Ma
March 10, 2005	7,500	7.47				7,500	January 1, 2006	Ma
February 1, 2006	10,000	15.90				10,000	February 1, 2008	Janua
February 21, 2007		13.95	10,000			10,000	February 21, 2009	Februa
	72,500		10,000	10,000		72,500		
September 6, 2007		\$ 20.37	20,000		\$	20,000	September 6, 2008	Septem
			20,000			20,000		

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Date of Grant	At December 31, 2006	Exercise Price	Granted 2007	Exercised or Vested/ Cancelled 2007	Market Price at Exercise Date	At December 31, 2007	Earliest Exercisable Date
March 10, 2005	60,000	\$ 7.47			\$	60,000	January 1, 2006
May 25, 2005	150,000	7.21				150,000	January 1, 2006
February 1, 2006	63,899	15.90				63,899	January 1, 2007
February 1, 2006	12,579	RSU		3,144		9,435	February 1, 2007
February 21, 2007		13.95	115,620			115,620	February 21, 2008
February 21, 2007		RSU	17,921			17,921	February 21, 2008
	286,478		133,541	3,144		416,875	
April 30, 1999	10,000	\$ 25.81		10,000	\$		April 30, 2002
March 2, 2001	5,000	54.85				5,000	March 2, 2002
March 10, 2004	40,000	16.27				40,000	March 10, 2005
March 10, 2005	7,500	7.47				7,500	January 1, 2006
February 1, 2006	10,000	15.90				10,000	February 1, 2008
February 21, 2007		13.95	10,000			10,000	February 21, 2009
	72,500		10,000	10,000		72,500	
December 7, 2000	125,000	\$ 53.25			\$	125,000	December 7, 2002
March 1, 2002	40,000	14.07				40,000	January 1, 2003
August 20, 2002	355,000	2.11		70,000	15.00	215,000	February 20, 2003
				30,000	18.30		
				40,000	23.59		
April 2, 2003	15,000	2.79				15,000	January 1, 2004
March 10, 2004	40,000	16.27				40,000	January 1, 2005
March 10, 2005	60,000	7.47				60,000	January 1, 2006
February 1, 2006	127,799	15.90				127,799	January 1, 2007
February 1, 2006	25,157	RSU		6,289			February 1, 2007
				18,868			
February 21, 2007		13.95	106,371			106,371	February 21, 2008
February 21, 2007		RSU	16,487			16,487	February 14, 2008
	787,956		122,858	165,157		745,657	
September 13, 2007		\$ 19.51	20,000		\$	20,000	September 13, 2008
			20,000			20,000	
March 2, 2001	5,000	\$ 54.85			\$	5,000	February 1, 2003
March 10, 2004	40,000	16.27				40,000	March 10, 2005

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March 10, 2005	7,500	7.47			7,500	January 1, 2006
February 1, 2006	10,000	15.90			10,000	February 1, 2008
February 21, 2007		13.95	10,000		10,000	February 21, 2009
	62,500		10,000		72,500	
May 26, 2005	15,000	\$ 8.05		\$	15,000	May 26, 2007
February 1, 2006	10,000	15.90			10,000	February 1, 2008
February 21, 2007		13.95	10,000		10,000	February 21, 2009
	25,000		10,000		35,000	
September 13, 2007		\$ 19.51	20,000	\$	20,000	September 13, 2008
			20,000		20,000	
February 6, 2003	1,000,000	\$ 3.85		\$	1,000,000	December 31, 2003
November 13, 2003	1,000,000	5.28			1,000,000	December 31, 2003
March 10, 2004	60,000	16.27			60,000	January 1, 2005
March 10, 2005	280,000	7.47			280,000	January 1, 2006
December 7, 2005	750,000	12.03			750,000	December 31, 2006
February 21, 2007		13.95	494,855		494,855	February 21, 2008
	3,090,000		494,855		3,584,855	
April 30, 1999	10,000	\$ 25.81		10,000	\$	April 30, 2002
March 2, 2001	5,000	54.85			5,000	March 2, 2002
March 10, 2004	40,000	16.27			40,000	March 10, 2005
March 10, 2005	7,500	7.47			7,500	January 1, 2006
February 1, 2006	10,000	15.90			10,000	February 1, 2008
February 21, 2007		13.95	10,000		10,000	February 21, 2009
	72,500		10,000	10,000	72,500	
May 25, 2006	20,000	\$ 18.13		\$	20,000	May 25, 2007
February 21, 2007		13.95	10,000		10,000	February 21, 2009
	20,000		10,000		30,000	
April 30, 1999	10,000	\$ 25.81		10,000	\$	April 30, 2002
March 2, 2001	5,000	54.85			5,000	March 2, 2002
March 10, 2004	40,000	16.27			40,000	March 10, 2005
March 10, 2005	7,500	7.47			7,500	January 1, 2006
February 1, 2006	10,000	15.90			10,000	