ALEXION PHARMACEUTICALS INC
Form 10-Q
May 02, 2012

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

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2012
or
¨ Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number: 0-27756

ALEXION PHARMACEUTICALS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	13-3648318
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

352 Knotter Drive, Cheshire Connecticut 06410
(Address of Principal Executive Offices) (Zip Code)
203-272-2596
(Registrant's telephone number, including area code)
N/A
(Former name, former address, and former fiscal year, if changed since last report)

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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check One:
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company)
Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Common Stock, $0.0001 par value	186,924,017
Class	Outstanding at April 20, 2012

Alexion Pharmaceuticals, Inc.
Contents

Alexion Pharmaceuticals, Inc.
Condensed Consolidated Balance Sheets
(unaudited)
(amounts in thousands)

	March 31, 2012	December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	$359,388	$540,865
Trade accounts receivable, net	267,397	244,288
Inventories	92,906	81,386
Deferred tax assets	19,048	19,132
Prepaid expenses and other current assets	73,195	55,599
Total current assets	811,934	941,270
Property, plant and equipment, net	165,763	165,852
Intangible assets, net	677,200	91,604
Goodwill	264,118	79,639
Deferred tax assets	80,553	103,868
Other assets	17,896	12,518
Total assets	$2,017,464	$1,394,751
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$16,023	$16,029
Accrued expenses	206,863	186,064
Deferred revenue	17,983	17,905
Deferred tax liabilities	894	862
Current portion of long-term debt	108,000	—
Other current liabilities	3,914	9,365
Total current liabilities	353,677	230,225
Long-term debt, less current portion	247,000	—
Deferred tax liabilities	55,510	—
Contingent consideration	138,028	18,120
Other liabilities	9,969	11,914
Total liabilities	804,184	260,259
Commitments and contingencies (Note 15)		
Stockholders' Equity:		
Preferred stock, $.0001 par value; 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.0001 par value; 290,000 shares authorized; 186,990 and 185,616 shares issued at March 31, 2012 and December 31, 2011, respectively	19	19
Additional paid-in capital	1,291,587	1,261,589
Treasury stock, at cost	(2,676)	(2,676)
Accumulated other comprehensive income	7,556	4,179
Accumulated deficit	(83,206)	(128,619)
Total stockholders' equity	1,213,280	1,134,492
Total liabilities and stockholders' equity	$2,017,464	$1,394,751

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

Alexion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Comprehensive Income
(unaudited)
(amounts in thousands, except per share amounts)

	Three months ended March 31,	
	2012	2011
Net product sales	$244,733	$166,126
Cost of sales	28,268	19,228
Operating expenses:		
Research and development	45,408	30,810
Selling, general and administrative	87,242	65,858
Acquisition-related costs	13,673	9,928
Amortization of purchased intangible assets	104	69
Total operating expenses	146,427	106,665
Operating income	70,038	40,233
Other income and expense:		
Investment income	273	396
Interest expense	(2,287)	(198)
Foreign currency loss	(215)	395
Income before income taxes	67,809	40,826
Income tax provision	22,396	13,996
Net income	$45,413	$26,830
Earnings per common share *		
Basic	$0.24	$0.15
Diluted	$0.23	$0.14
Shares used in computing earnings per common share *		
Basic	185,682	181,724
Diluted	194,560	190,366
Comprehensive income	$48,790	$19,695

* Reflects the May 20, 2011, two-for-one stock split (refer to Note 2 for further discussion)

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

Alexion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(amounts in thousands)

	Three months ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	$45,413	$26,830
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	5,875	4,317
Change in fair value of contingent consideration	2,908	136
Share-based compensation expense	13,318	11,331
Deferred taxes	23,117	10,064
Marketable securities premium amortization	—	110
Unrealized foreign currency (gain) loss	(1,543)	(3,138)
Losses (gains) on forward contracts	1,136	(1,228)
Loss on disposal of property, plant and equipment	17	—
Changes in operating assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	(20,184)	(26,560)
Inventories	(9,746)	(10,379)
Prepaid expenses and other assets	5,372	(1,053)
Accounts payable and accrued expenses	(2,845)	5,447
Deferred revenue	(33)	8,484
Net cash provided by operating activities	62,805	24,361
Cash flows from investing activities:		
Proceeds from maturity or sale of marketable securities	—	35,000
Purchases of property, plant and equipment	(3,766)	(2,222)
Payments for acquisitions of businesses, net of cash acquired	(605,429)	(105,405)
Increase in restricted cash	(2)	(338)
Net cash used in investing activities	(609,197)	(72,965)
Cash flows from financing activities:		
Debt issuance costs	(6,109)	—
Payments on capital leases	(91)	(92)
Proceeds from revolving credit facility	115,000	60,000
Proceeds from term loan	240,000	—
Excess tax benefit from stock options	—	299
Net proceeds from the exercise of stock options	15,822	9,685
Net cash provided by financing activities	364,622	69,892
Effect of exchange rate changes on cash	293	997
Net change in cash and cash equivalents	(181,477)	22,285
Cash and cash equivalents at beginning of period	540,865	267,145
Cash and cash equivalents at end of period	$359,388	$289,430
Supplemental cash flow disclosures from investing and financing activities:		
Conversion of convertible debt	$718	$—
Contingent consideration issued in acquisitions	117,000	16,720

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

Alexion Pharmaceuticals, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)
(amounts in thousands except per share amounts)

1. Business

Alexion Pharmaceuticals, Inc. (“Alexion”, the “Company”, “we”, “our” or “us”) is a biopharmaceutical company focused on serving patients with severe and ultra-rare disorders through the innovation, development and commercialization of life-transforming therapeutic products. Our marketed product Soliris® (eculizumab) is the first and only therapeutic approved for patients with two ultra-rare and severe disorders resulting from chronic uncontrolled activation of the complement component of the immune system: paroxysmal nocturnal hemoglobinuria (PNH), an ultra-rare and life-threatening blood disorder, and atypical hemolytic uremic syndrome (aHUS), an ultra-rare and life-threatening genetic disease. We are also evaluating other potential indications for Soliris in other severe and ultra-rare diseases in which chronic uncontrolled complement activation is the underlying mechanism, and we are progressing in various stages of development with additional biotechnology product candidates as treatments for patients with other severe and ultra-rare disorders. We were incorporated in 1992 and began commercial sale of Soliris in 2007.

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These accounting principles were applied on a basis consistent with those of the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. In our opinion, the accompanying unaudited consolidated financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial statements for interim periods in accordance with accounting principles generally accepted in the United States. The condensed consolidated balance sheet data as of December 31, 2011 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2011 included in our Annual Report on Form 10-K. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year.

The financial statements of our subsidiaries with functional currencies other than the U.S. dollar are translated into U.S. dollars using period-end exchange rates for assets and liabilities, historical exchange rates for stockholders' equity and weighted average exchange rates for operating results. Translation gains and losses are included in accumulated other comprehensive income (loss), net of tax, in stockholders' equity. Foreign currency transaction gains and losses are included in the results of operations in other income and expense.

The accompanying unaudited condensed consolidated financial statements include the accounts of Alexion Pharmaceuticals, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

On May 20, 2011, we effected a two-for-one stock split, paid in the form of a 100% stock dividend. Stockholders of record at the close of trading on May 2, 2011 were issued one additional share of common stock for each share owned by such shareholder. All share and per share data presented in the accompanying consolidated financial statements and notes has been retroactively restated to reflect the stock split.

Our significant accounting policies are described in Note 1 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued a new standard on fair value measurement and disclosure requirements. The new standard changes fair value measurement principles and disclosure requirements including measuring the fair value of financial instruments that are managed within a portfolio, the application of applying premiums and discounts in a fair value measurement, and additional disclosure about fair value measurements. The adoption of this guidance in the first quarter 2012 did not have a material effect on our condensed consolidated financial statements.

In June 2011, the FASB issued a new standard on the presentation of comprehensive income. The new standard eliminated the alternative to report other comprehensive income and its components in the statement of changes in equity. Under the new standard, companies can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. We adopted the provisions of this guidance during the first quarter 2012.

Alexion Pharmaceuticals, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)
(amounts in thousands except per share amounts)

In September 2011, the FASB issued a new standard to simplify how an entity tests goodwill for impairment. The new standard allows companies an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining if it is necessary to perform the two-step quantitative goodwill impairment test. Under the new standard, a company is no longer required to calculate the fair value of a reporting unit unless the company determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. We will adopt the provisions of the guidance for our annual impairment test in 2012.

3. Acquisitions

Acquisition of Enobia Pharma Corp.

On February 7, 2012, we acquired Enobia Pharma Corp. (Enobia), a privately held clinical-stage biotechnology company based in Montreal, Canada and Cambridge, Massachusetts, in a transaction accounted for under the acquisition method of accounting for business combinations. Under the acquisition method of accounting, the assets acquired and liabilities assumed of Enobia were recorded as of the acquisition date at their respective fair values. The reported consolidated financial condition after completion of the acquisition reflects these fair values. Enobia's results of operations are included in the consolidated financial statements from the date of acquisition. The acquisition is intended to further our objective to develop and deliver therapies for patients with severe, ultra-rare and life-threatening disorders. Enobia's lead product candidate asfotase alfa, is a human recombinant targeted alkaline phosphatase enzyme-replacement therapy for patients suffering with hypophosphatasia (HPP), an ultra-rare, life-threatening, genetic metabolic disease for which there are no approved treatments.
We made an upfront cash payment of $623,570 for 100% of Enobia's capital stock. Additional contingent payments of up to an aggregate of $470,000 would be due upon reaching various regulatory and sales milestones. We financed the acquisition with existing cash and proceeds from our new credit facility (Note 7).
A reconciliation of upfront payments in accordance with the purchase agreement to the total purchase price is presented below:

	Enobia
Base payment per agreement	$610,000
Cash acquired	18,141
Working capital adjustment	(4,571)
Upfront payment in accordance with agreement	623,570
Estimated fair value of contingent consideration	117,000
Total purchase price	$740,570

The initial estimate of fair value of contingent consideration was $117,000, which was recorded as a noncurrent liability. We determined the fair value of these obligations to pay additional milestone payments using various estimates, including probabilities of success, discount rates and amount of time until the conditions of the milestone payments are met. This fair value measurement is based on significant inputs not observable in the market, representing a Level 3 measurement within the fair value hierarchy (described further in Note 11). The resulting probability-weighted cash flows were discounted using a Baa industrial index rate of 5.2% for developmental milestones and a weighted average cost of capital of 13%, which are representative of a market participant

assumptions. The range of estimated milestone payments is from zero if no clinical milestones are achieved for any product to $470,000 if asfotase alfa gains both U.S., European and Japanese marketing approval and reaches applicable sales levels.

Subsequent to the acquisition date, we have adjusted the contingent consideration to fair value with changes in fair value recognized in operating earnings. Changes in fair values reflect new information about the probability and timing of meeting the conditions of the milestone payments. In the absence of new information, changes in fair value will only reflect the passage of time as development work progresses towards the achievement of the milestones. At March 31, 2012, the fair value of the contingent consideration for Enobia was $118,636.

The fair values of acquired assets and liabilities are based on preliminary estimates and are subject to change. The following table summarizes the estimated fair values of assets acquired and liabilities assumed:

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(amounts in thousands except per share amounts)

	Enobia
Cash and cash equivalents	$18,141
Current assets	4,777
In-process research and development	587,000
Other noncurrent assets	1,200
Assets acquired	611,118
Deferred tax liability	(37,226)
Other liabilities assumed	(17,801)
Liabilities assumed	(55,027)
Goodwill	184,479
Net assets acquired	$740,570

Asset categories acquired in the Enobia acquisition included working capital, fixed assets, deferred tax assets and in-process research and development (IPR&D). The fair value of working capital was determined to approximate book values. The fair value assigned to the assets acquired and liabilities assumed has been prepared on a preliminary basis, and changes to that allocation may occur as additional information becomes available related to the valuation of intangible assets, working capital adjustments, indemnification assets and deferred taxes.

Intangible assets associated with IPR&D projects relate to Enobia's lead product candidate, asfotase alfa. The estimated fair value of $587,000 was determined using the multi-period excess earnings method, a variation of the income approach. The multi-period excess earnings method estimates the value of an intangible asset equal to the present value of the incremental after-tax cash flows attributable to that intangible asset. The fair value using the multi-period excess earnings method was dependent on an estimated weighted average cost of capital for Enobia of 13%, which represents a rate of return that a market participant would expect for these assets. Intangible assets related to IPR&D projects are considered to be indefinite-lived until the completion or abandonment of the associated research and development efforts. During the period the assets are considered indefinite-lived, they will not be amortized but will be tested for impairment on an annual basis, as well as between annual tests if we become aware of any events occurring or changes in circumstances that would indicate a reduction in the fair value of the IPR&D projects below their respective carrying amounts. If and when development is complete, which generally occurs when regulatory approval to market a product is obtained, the associated assets would be deemed finite-lived and would then be amortized based on their estimated useful lives at that point in time.

The excess of purchase price over the fair value amounts of the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition. We do not expect any portion of this goodwill to be deductible for tax purposes. The goodwill attributable to our acquisition of Enobia has been recorded as a noncurrent asset and is not amortized, but is subject to an annual review for impairment. The factors that contributed to the recognition of goodwill included the synergies that are specific to our business and not available to market participants, including our unique ability to commercialize therapies for rare diseases, our skills and relationships related to biologics manufacturing, our existing relationships with specialty physicians who can identify patients with HPP and a global distribution network to facilitate immediate drug delivery.

We recorded a net deferred tax liability of $37,226. This amount was primarily comprised of $78,951 related to IPR&D, offset by acquired net operating losses and research credit carryovers totaling $41,725.

For the three months ended March 31, 2012, we recorded $6,794 of expenses associated with the operations of Enobia in our consolidated statement of comprehensive income. Effective April 1, 2012, the operations of Enobia were integrated into our operations.

Pro forma financial information (unaudited)

The following unaudited pro forma information presents the combined results of operations for the three months ended March 31, 2012 and 2011 as if the acquisition of Enobia had been completed on January 1, 2011. The pro forma results do not reflect operating efficiencies or potential cost savings which may result from the consolidation of operations. The pro forma results have been adjusted to remove costs associated with changes in the fair value of Enobia's preferred stock. Included in the pro forma net income for the three months ended March 31, 2012, are approximately $12,401 and $7,900 of Alexion and Enobia acquisition-related costs, respectively, which are not expected to have an ongoing impact.

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(unaudited)
(amounts in thousands except per share amounts)

	March 31, 2012	2011
Revenues	$244,733	$166,126
Net income	27,000	19,234
Earnings per common share		
Basic	$0.15	$0.11
Diluted	$0.14	$0.10

Other Acquisitions

Taligen Therapeutics, Inc.

On January 28, 2011, we acquired all of the outstanding capital stock of Taligen Therapeutics, Inc. (Taligen) in a transaction accounted for under the acquisition method of accounting for business combinations. We made initial payments of $111,773 in cash and may make additional future payments of up to $367,000 in contingent milestone payments upon achievement of various development and commercial milestones. The range of estimated milestone payments is from zero if no clinical milestones are achieved for any product to $367,000 if six products gain both U.S. and European marketing approval.

The initial estimate of fair value of contingent consideration was $11,634. Subsequent to the acquisition date, we have adjusted the contingent consideration to fair value with changes in fair value recognized in operating earnings. Changes in fair values reflect new information about the probability and timing of meeting the conditions of the milestone payments. In the absence of new information, changes in fair value will only reflect the passage of time as development work progresses towards the achievement of the milestones. At March 31, 2012, the fair value of the contingent consideration for Taligen was $12,684. Changes in fair value of the consideration for Taligen were $1,180 and $84 for the three months ended March 31, 2012 and 2011, respectively.

Orphatec Pharmaceuticals GmbH

On February 8, 2011, we acquired certain patents and assets from Orphatec Pharmaceuticals GmbH (Orphatec) related to an investigational therapy for patients with molybdenum cofactor deficiency (MoCD) Type A, an ultra-rare genetic disorder characterized by severe brain damage and rapid death in newborns. We made initial payments of $3,050 in cash and may make additional future payments of up to $42,000 in contingent milestone payments upon various development, regulatory and commercial milestones. The range of estimated milestone payments is from zero if no products gain market approval to $42,000 if all indications for up to two products gain both U.S. and European marketing approval and reach applicable sales levels.

The initial estimate of fair value of contingent consideration was $5,086. Subsequent to the acquisition date, we have measured the contingent consideration arrangement at fair value with changes in fair value recognized in operating earnings. Changes in fair values reflect new information about the IPR&D assets and the passage of time. In the absence of new information, changes in fair value will only reflect the passage of time as development work progresses towards the achievement of the milestones. At March 31, 2012, the fair value of the contingent consideration for Orphatec was $5,436. Changes in fair value of the consideration for Orphatec were $92 and $52 for the three months ended March 31, 2012 and 2011, respectively.

Acquisition-related Costs

Acquisition-related costs for the three months ended March 31, 2012 and 2011 include the following:

	March 31,

	2012	2011
Separately-identifiable employee costs	$2,296	$6,597
Professional fees	$8,469	$3,195
Changes in fair value of contingent consideration	2,908	136
	$13,673	$9,928

During the three months ended March 31, 2012, we incurred approximately $12,401, in costs related to the Enobia acquisition.

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(amounts in thousands except per share amounts)

4. Revenue and Accounts Receivable

Revenue

Our principal source of revenue is product sales. We recognize revenue from product sales when persuasive evidence of an arrangement exists, title to product and associated risk of loss has passed to the customer, the price is fixed or determinable, collection from the customer is reasonably assured and we have no further performance obligations. Revenue is recorded upon receipt of the product by the end customer, which is typically a hospital, physician's office, private or government pharmacy or other health care facility. Amounts collected from customers and remitted to governmental authorities, such as value-added taxes (VAT) in foreign jurisdictions, are presented on a net basis in our statements of operations and do not impact net product sales.

Because of factors such as the pricing of Soliris, the limited number of patients, the short period from product sale to patient infusion and the lack of contractual return rights, Soliris customers often carry limited inventory. We also monitor inventory within our sales channels to determine whether deferrals are appropriate based on factors such as inventory levels, contractual terms and financial strength of distributors. To date, actual refunds and returns have been negligible.

We have entered into volume-based arrangements with governments in certain countries in which reimbursement is limited to a contractual amount. We estimate incremental discounts resulting from these contractual limitations, based on estimated sales during the limitation period, and we apply the discount percentage to product shipments as a reduction of revenue. In addition to sales in countries where Soliris is commercially available, we have also recorded revenue on sales for patients receiving Soliris treatment through named-patient programs. The relevant authorities or institutions in those countries have agreed to reimburse for product sold on a named-patient basis where Soliris has not received final approval for commercial sale.

We record estimated rebates payable under governmental programs, including Medicaid in the United States and other programs outside the United States, as a reduction of revenue at the time of product sale. Our calculations related to these rebate accruals require analysis of historical claim patterns and estimates of customer mix to determine which sales will be subject to rebates and the amount of such rebates. We update our estimates and assumptions each period and record any necessary adjustments, which may have an impact on revenue in the period in which the adjustment is made. Generally, the length of time between product sale and the processing and reporting of the rebates is three to six months.

We record distribution and other fees paid to our customers as a reduction of revenue, unless we receive an identifiable and separate benefit for the consideration and we can reasonably estimate the fair value of the benefit received. If both conditions are met, we record the consideration paid to the customer as an operating expense. These costs are typically known at the time of sale, resulting in minimal adjustments subsequent to the period of sale.

We enter into foreign exchange forward contracts to hedge exposures resulting from portions of our forecasted intercompany revenues that are denominated in currencies other than the U.S. dollar. These hedges are designated as cash flow hedges upon inception. We record the effective portion of these cash flow hedges to revenue in the period in which the sale is made to an unrelated third party and the derivative contract is settled.

Accounts Receivable

Our standard credit terms vary based on the country of sale and range from 30 to 120 days. Our consolidated average days' sales outstanding ranges from 80 to 100 days. We sell Soliris to a limited number of customers, and we evaluate the creditworthiness of each such customer on a regular basis. In certain European countries, sales by us are subject to payment terms that are statutorily determined. This is primarily the case in countries where the payor is government-owned or government-funded, which we consider to be creditworthy. The length of time from sale to

receipt of payment in certain countries typically exceeds our credit terms. In countries in which collections from customers extend beyond normal payment terms, we seek to collect interest. We record interest on customer receivables as interest income when collected. For non-interest bearing receivables with an estimated payment beyond one year, we discount the accounts receivable to present value at the date of sale, with a corresponding adjustment to revenue. Subsequent adjustments for further declines in credit rating are recorded as bad debt expense as a component of selling, general and administrative expense. We also use judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables if and when collection becomes doubtful.

We continue to monitor economic conditions, including volatility associated with international economies and the sovereign debt crisis in Europe, and the associated impacts on the financial markets and our business. The credit and economic

Alexion Pharmaceuticals, Inc.
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(amounts in thousands except per share amounts)

conditions in Greece, Italy and Spain, among other members of the European Union, have deteriorated throughout 2011 and into 2012. These conditions have resulted in, and may continue to result in, an increase in the average length of time it takes to collect our outstanding accounts receivable in these countries. Substantially all of our accounts receivable due from these countries are due from or backed by sovereign and local governments, and the amount of non-sovereign accounts receivable is not material. As of March 31, 2012, our gross accounts receivable in Greece, Italy and Spain were approximately $92,600. Approximately $29,900 of this amount has been outstanding for greater than one year, and we have recorded an allowance of approximately $4,200 related to these receivables as of March 31, 2012. During the three months ended March 31, 2012, we have recorded expense of approximately $950 related to the expectation of delayed payment from these countries.

Our net accounts receivable on these countries are summarized as follows:

	Total Accounts Receivable, net	Accounts Receivable, net > one year
Greece	$1,606	$806
Italy	35,335	7,824
Spain	51,528	18,129

5. Inventories

Inventories are stated at the lower of cost or estimated realizable value. We determine the cost of inventory using the weighted-average cost method.

The components of inventory are as follows:

	March 31, 2012	December 31, 2011
Raw materials	$8,939	$9,677
Work-in-process	43,776	37,000
Finished goods	40,191	34,709
	$92,906	$81,386

6. Intangible Assets and Goodwill

The following table summarizes the carrying amount of our intangible assets and goodwill, net of accumulated amortization:

	March 31, 2012	December 31, 2011
Licenses, patents and purchased technology	$22,650	$ 24,054
Acquired IPR&D	654,550	67,550
Intangible assets	$677,200	$ 91,604
Goodwill	$264,118	$ 79,639

As of March 31, 2012, we have recorded indefinite-lived intangible assets of $654,550, which consisted of $587,000, $59,500, and $8,050 of purchased IPR&D from our acquisitions of Enobia, Taligen and Orphatec, respectively.

The following table summarizes the changes in the carrying amount of goodwill:

Balance at December 31, 2011	$79,639
Goodwill resulting from the Enobia acquisition	184,479
Balance at March 31, 2012	$264,118

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7. Debt

On February 7, 2012, we and our wholly-owned Swiss subsidiary, Alexion Pharma International Sàrl, entered into a Credit Agreement (Credit Agreement) with a syndication of banks, that provides for a $240,000 senior secured term loan facility payable in equal quarterly installments of $12,000 starting June 30, 2012 and a $200,000 senior secured revolving credit facility through February 7, 2017. In addition to borrowings upon prior notice, the revolving credit facility includes borrowing capacity in the form of letters of credit up to $60,000 and borrowings on same-day notice, referred to as swingline loans, of up to $10,000. Borrowings can be used for working capital requirements, acquisitions and other general corporate purposes. With the consent of the lenders and the administrative agent and subject to satisfaction of certain conditions, we may increase the term loan facility and/or the revolving credit facility in an aggregate amount not to exceed $150,000.

We may elect that the loans under the Credit Agreement bear interest at a rate per annum equal to (i) LIBOR plus 1.25% to 2.00% depending on our consolidated leverage ratio (as calculated in accordance with the Credit Agreement), or (ii) in the case of loans denominated in U.S. dollars, a Base Rate equal to the higher of the (A) Prime Rate then in effect, (B) Federal Funds Rate then in effect plus 0.50%, and (C) Eurodollar Rate then in effect plus 1.00%, plus in each case of (A), (B) or (C), 0.25% to 1.00% depending on our consolidated leverage ratio (as calculated in accordance with the Credit Agreement). Interest is payable quarterly for Base Rate loans and, in the case of LIBOR-based loans, at the end of the applicable interest period, with the principal due on February 7, 2017, the maturity date.

Our obligations under the credit facilities are unconditionally guaranteed, jointly and severally, by certain of our existing domestic subsidiaries and are required to be guaranteed by certain of our future domestic subsidiaries. The obligations of Alexion Pharma International Sàrl under the credit facilities are unconditionally guaranteed, jointly and severally, by us, certain of our existing domestic subsidiaries, and certain of our foreign subsidiaries, and are required to be guaranteed by certain of our future subsidiaries. All obligations of each borrower under the credit facilities, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of each borrower's assets and the assets of certain guarantors, including the pledge of the equity interests of certain of our subsidiaries and real estate located in Smithfield, Rhode Island, but excluding intellectual property and assets of certain foreign subsidiaries.

The Credit Agreement requires us to comply with certain financial covenants on a quarterly basis. Further, the Credit Agreement includes negative covenants, subject to exceptions, restricting or limiting our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness, grant liens, engage in certain investment, acquisition and disposition transactions, pay dividends, repurchase capital stock and enter into transactions with affiliates. The Credit Agreement also contains customary representations and warranties, affirmative covenants and events of default, including payment defaults, breach of representations and warranties, covenant defaults and cross defaults. If an event of default occurs, the interest rate would increase and the administrative agent would be entitled to take various actions, including the acceleration of amounts due under the loan.

In connection with entering into the Credit Agreement, we paid approximately $6,109 in financing costs, which have been deferred and are included in other assets. The deferred financing costs are being amortized as interest expense over the life of the debt.

In connection with the acquisition of Enobia in February 2012, we borrowed approximately $320,000 under the facility and used our available cash for the remaining purchase price. We borrowed $240,000 under the term loan facility and $80,000 under the revolving facility. As of March 31, 2012, we borrowed $115,000 under the revolving credit facility and we had open letters of credit of $3,689. Our borrowing availability was approximately $81,000 at

March 31, 2012. In April 2012, we made payments of $60,000 on the revolving credit facility.

The fair value of our long term debt, which are Level 2 liabilities, approximates book value.

On February 7, 2012, the Second Amended and Restated Credit Agreement (Prior Credit Agreement), dated March 7, 2011 was terminated. All outstanding borrowings under the Former Credit Agreement were cancelled. The Former Credit Agreement was terminated in connection with, and simultaneously with, execution of the Credit Agreement described above.

In February 2012, our Convertible Senior 1.375% Notes (the 1.375% Notes) became due. Prior to the maturity of the 1.375% Notes, we issued an additional 91 shares of our common stock upon conversion of $718 principal amount. At March 31, 2012, there are no 1.375% Notes outstanding.

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8. Earnings Per Common Share

Basic earnings per common share (EPS) are computed by dividing net income by the weighted-average number of shares of common stock outstanding. For purposes of calculating diluted EPS, net income is adjusted for the after-tax amount of interest and deferred financing costs associated with our convertible debt, and the denominator reflects the potential dilution that could occur if stock options, unvested restricted stock, unvested restricted stock units or other contracts to issue common stock were exercised or converted into common stock, using the treasury stock method, as well as the potential dilution if the remaining convertible notes were converted to common stock.

The following table summarizes the calculation of basic and diluted EPS for the three months ended March 31, 2012 and 2011:

	March 31, 2012	2011
Net income used for basic calculation	$45,413	$26,830
Weighted-average effect of dilutive securities:		
Interest expense and debt financing cost amortization, net of tax, related to our 1.375% convertible senior notes	—	12
Net income used for diluted calculation	$45,413	$26,842
Shares used in computing earnings per common share—basic	185,682	181,724
Weighted-average effect of dilutive securities:		
Shares issuable upon the assumed conversion of our 1.375% convertible senior notes	—	474
Stock awards	8,878	8,168
Dilutive potential common shares	8,878	8,642
Shares used in computing earnings per common share—diluted	194,560	190,366
Earnings per common share:		
Basic	$0.24	$0.15
Diluted	$0.23	$0.14

The following table represents the potentially dilutive shares excluded from the calculation of EPS for the three months ended March 31, 2012, and 2011 because their effect is anti-dilutive:

	March 31, 2012	2011
Potentially dilutive securities:		
Options to purchase common stock	1,448	1,298
Unvested restricted stock and restricted stock units	5	20
	1,453	1,318

9. Derivative Instruments and Hedging Activities

We operate internationally and, in the normal course of business, are exposed to fluctuations in foreign currency exchange rates. The exposures result from portions of our revenues, as well as the related receivables, and expenses that are denominated in currencies other than the U.S. dollar, primarily the Euro, Japanese Yen and Swiss Franc. We

manage our foreign currency transaction risk within specified guidelines through the use of derivatives. All of our derivative instruments are utilized for risk management purposes, and we do not use derivatives for speculative trading purposes.

We enter into foreign exchange forward contracts, with durations of up to 36 months, to hedge exposures resulting from portions of our forecasted intercompany revenues that are denominated in currencies other than the U.S. dollar. The purpose of the hedges of intercompany revenue is to reduce the volatility of exchange rate fluctuations on our operating results and to

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increase the visibility of the foreign exchange impact on forecasted revenues. These hedges are designated as cash flow hedges upon contract inception. At March 31, 2012, we have open contracts with notional amounts totaling $592,477 that qualified for hedge accounting.

The impact on accumulated other comprehensive income (AOCI) and earnings from foreign exchange contracts that qualified as cash flow hedges, for the three months ended March 31, 2012 and 2011 are as follows:

	Three months ended March 31,	
	2012	2011
Gain (loss) recognized in AOCI, net of tax	$2,994	$(7,851)
Gain reclassified from AOCI to net product sales (effective portion)	$1,125	$400
Loss reclassified from AOCI to other income and expense (ineffective portion)	$(744)	$(658)

Assuming no change in foreign exchange rates from market rates at March 31, 2012, $8,712 of a gain recognized in accumulated other comprehensive income is expected to be reclassified to revenue over the next 12 months.

We enter into foreign exchange forward contracts, with durations of approximately 30 days, designed to limit the balance sheet exposure of monetary assets and liabilities. We enter into these hedges to reduce the impact of fluctuating exchange rates on our operating results. These derivative instruments do not qualify for hedge accounting; however, gains and losses on these hedge transactions are designed to offset gains and losses on underlying balance sheet exposures. As of March 31, 2012, the notional amount of foreign exchange contracts that do not qualify for hedge accounting was $176,901.

We recognized a gain (loss) of $109 and $(6,957), in other income and expense, for the three months ended March 31, 2012 and 2011, respectively, associated with the foreign exchange contracts not designated as hedging instruments under the guidance. These amounts were largely offset by gains or losses in monetary assets and liabilities.

The following tables summarize the fair value of outstanding derivatives at March 31, 2012 and 2011:

	March 31, 2012			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Other current assets	$10,926	Other current liabilities	$2,095
Foreign exchange forward contracts	Other non-current assets	6,917	Other non-current liabilities	498
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	Other current assets	2,825	Other current liabilities	1,055
Total fair value of derivative instruments		$20,668		$3,648

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	December 31, 2011			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Other current assets	$14,118	Other current liabilities	$5,889
Foreign exchange forward contracts	Other non-current assets	6,465	Other non-current liabilities	2,552
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	Other current assets	4,745	Other current liabilities	2,033
Total fair value of derivative instruments		$25,328		$10,474

10. Share-Based Compensation

The following table summarizes the components of share-based compensation expense in the condensed consolidated statements of comprehensive income:

	March 31,	
	2012	2011
Cost of sales	$603	$545
Research and development	3,349	2,733
Selling, general and administrative	9,366	8,053
Total share-based compensation expense	$13,318	$11,331

The following table summarizes the share-based compensation capitalized to inventory:

	March 31,	
	2012	2011
Share-based compensation expense capitalized to inventory	$743	$844

11. Fair Value Measurement

Authoritative guidance establishes a valuation hierarchy for disclosure of the inputs to the valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

The following tables present information about our assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011, and indicate the fair value hierarchy of the valuation techniques we utilized to determine such fair value.

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		Fair Value Measurement at March 31, 2012			
Balance Sheet Classification	Type of Instrument	Total	Level 1	Level 2	Level 3
Cash equivalents	Institutional money market funds	$170,461	$—	$170,461	$—
Other current assets	Foreign exchange forward contracts	$13,751	$—	$13,751	$—
Other assets	Foreign exchange forward contracts	$6,917	$—	$6,917	$—
Other current liabilities	Foreign exchange forward contracts	$3,150	$—	$3,150	$—
Other liabilities	Foreign exchange forward contracts	$498	$—	$498	$—
Contingent consideration	Acquisition-related contingent consideration	$138,028	$—	$—	$138,028

		Fair Value Measurement at December 31, 2011			
Balance Sheet Classification	Type of Instrument	Total	Level 1	Level 2	Level 3
Cash equivalents	Institutional money market funds	$428,431	$—	$428,431	$—
Other current assets	Foreign exchange forward contracts	$18,863	$—	$18,863	$—
Other assets	Foreign exchange forward contracts	$6,465	$—	$6,465	$—
Other current liabilities	Foreign exchange forward contracts	$7,922	$—	$7,922	$—
Other liabilities	Foreign exchange forward contracts	$2,552	$—	$2,552	$—
Contingent consideration	Acquisition-related contingent consideration	$18,120	$—	$—	$18,120

The following table represents a roll-forward of the fair value of Level 3 instruments, comprised solely of acquisition-related contingent consideration:

	March 31, 2012
Balance at beginning of period	$(18,120)
Amounts acquired or issued	(117,000)
Change in fair value	(2,908)
Balance at end of period	$(138,028)

Valuation Techniques

Items classified as Level 2 within the valuation hierarchy, consisting of an institutional money market fund held at a multinational financial institution, corporate and federal agency bonds and commercial paper are valued based upon pricing of securities with similar investment characteristics and holdings. Our derivative assets and liabilities include foreign exchange derivatives that are measured at fair value using observable market inputs such as forward rates, interest rates, our own credit risk and our counterparties' credit risks. Based on these inputs, the derivative assets and liabilities are classified within Level 2 of the valuation hierarchy. Items classified as Level 3 within the valuation hierarchy, consisting of contingent consideration liabilities related to the Enobia, Taligen and Orphatec acquisitions, were valued based on various estimates, including

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probability of success, discount rates and amount of time until the conditions of the milestone payments are met.
As of March 31, 2012, there has not been any impact to the fair value of our derivative liabilities due to our own credit risk. Similarly, there has not been any significant adverse impact to our derivative assets based on our evaluation of our counterparties' credit risks.

12. Income Taxes

We utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and tax basis of assets and liabilities using enacted tax rates in effect for years in which the temporary differences are expected to reverse. We provide a valuation allowance when it is more likely than not that deferred tax assets will not be realized. We recognize the benefit of an uncertain tax position that has been taken or we expect to take on income tax returns if such tax position is more likely than not to be sustained.
We continue to maintain a valuation allowance against certain other deferred tax assets where realization is not certain. We periodically evaluate the likelihood of the realization of deferred tax assets and reduce the carrying amount of these deferred tax assets by a valuation allowance to the extent we believe a portion will not be realized.
The following table provides a comparative summary of our income tax provision and effective tax rate for the three months ended March 31, 2012 and 2011:

	2012		2011	
Provision for income taxes	$22,396		$13,996	
Effective tax rate	33.0	%	34.3	%

The tax provision for the three months ended March 31, 2012 and 2011 is principally attributable to the U.S. federal, state and foreign income taxes on our profitable operations.
The Internal Revenue Service (IRS) continues their examination of our U.S. income tax returns for 2008 and 2009 and it is anticipated to be completed within the next twelve months. If the IRS examination produces a substantial adjustment for those and other periods, the impact on our income tax provision may be significant and could have an impact on our results of operations. We are not aware of any issues related to the IRS examination that would have a material impact on our consolidated financial statements.

13. Employee Benefit Plans

Defined Contribution Plan

We have one qualified 401(k) plans covering all eligible employees. Under the plan, employees may contribute up to the statutory allowable amount for any calendar year. We make matching contributions equal to:
- $1.00 for each dollar contributed up to the first 4% of an individual's base salary and incentive cash bonus; and
- $0.50 for each dollar contributed of the next 2% of such compensation.

For the three months ended March 31, 2012, and 2011, we recorded matching contributions of approximately $1,112, and $877, respectively.

Defined Benefit Plan

We maintain defined benefit plans for employees in certain countries outside the United States, including retirement benefit plans required by applicable local law. The plans are valued by independent actuaries using the projected unit credit method. The liabilities correspond to the projected benefit obligations of which the discounted net present value

is calculated based on years of employment, expected salary increases, and pension adjustments.
The components of net periodic benefit cost are as follows:

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	March 31, 2012	2011
Service cost	$1,210	$983
Interest cost	118	90
Expected return on plan assets	(131)	(94)
Employee contributions	(284)	(239)
Amortization	76	56
Total net periodic benefit cost	$989	$796

14. Commitments and Contingencies

Commitments

We rely on Lonza Group AG and its affiliates (Lonza), a third party manufacturer,to produce a portion of commercial and clinical quantities of Soliris and for clinical quantities of asfotase alfa, and we have contracted and expect to continue contracting for product finishing, vial filling and packaging through third parties. We have various agreements with Lonza, with remaining total commitments of approximately $207,500 through 2018. Such commitments may be canceled only in limited circumstances. If we terminate certain supply agreements with Lonza without cause, we will be required to pay for product scheduled for manufacture under our arrangement. Under an existing arrangement with Lonza, we also pay Lonza a royalty on sales of Soliris manufactured at Alexion Rhode Island Manufacturing Facility (ARIMF).

Contingent Liabilities

We are currently involved in various claims and legal proceedings. On a quarterly basis, we review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim, asserted or unasserted, or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Because of uncertainties related to claims and litigation, accruals are based on our best estimates based on available information. On a periodic basis, as additional information becomes available, or based on specific events such as the outcome of litigation or settlement of claims, we may reassess the potential liability related to these matters and may revise these estimates, which could result in a material adverse adjustment to our operating results.

On January 26, 2011, Novartis Vaccines & Diagnostics, Inc. (Novartis) filed a civil action against us and other biopharmaceutical companies in the U.S. District Court for the District of Delaware. Novartis claims willful infringement by us of U.S. Patent No. 5,688,688. Novartis seeks, among other things, monetary damages. If it is finally determined that we infringe the Novartis patent, we may be required to pay royalties to Novartis on sales of Soliris regarding certain manufacturing technology. Although we do not believe that the manufacture of Soliris infringes a valid patent claim owned by Novartis, we cannot guarantee that we will be successful in defending against such action. Given the stage of this litigation, management does not currently believe a loss related to this matter is probable or that the potential magnitude of such loss or range of loss, if any, can be reasonably estimated.

In addition to the Novartis claim, other third parties may claim that the manufacture, use or sale of Soliris or other drugs under development infringes patents owned or granted to such third parties. We are aware of broad patents owned by others relating to the manufacture, use and sale of recombinant humanized antibodies, recombinant human antibodies, and recombinant human single chain antibodies. Soliris and many of our product candidates are genetically engineered antibodies, including recombinant humanized antibodies, recombinant human antibodies, or recombinant

human single chain antibodies. In addition to the action described above, we have received notices from the owners of some of these patents claiming that their patents may be infringed by the development, manufacture or sale of Soliris or some of our drug candidates. We are also aware of other patents owned by third parties that might be claimed by such third parties to be infringed by the development and commercialization of Soliris and some of our drug candidates. In respect to some of these patents, we have obtained licenses, or expect to obtain licenses. We estimate our obligations for probable contingent liabilities based on our assessment of estimated royalties potentially owed to other third parties. A costly license, or inability to obtain a necessary license, could have a material adverse effect on our business. However, the amount of such loss or a range of loss, if any, beyond amounts currently accrued cannot be reasonably estimated.

At March 31, 2012 and December 31, 2011, we have recorded $92,127 and $82,010 respectively, in accrued expenses for royalties. Our cost of sales for the three months ended March 31, 2012 and 2011 includes amounts recorded for both changes in contingent liabilities described above and for existing royalty agreements.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by our management, and may include, but are not limited to, statements regarding the potential benefits and commercial potential of Soliris® (eculizumab) for its approved indications and any expanded uses, timing and effect of sales of Soliris in various markets worldwide, pricing for Soliris, level of insurance coverage and reimbursement for Soliris, level of future Soliris sales and collections, timing regarding development and regulatory approvals for additional indications or in additional territories for Soliris, the medical and commercial potential of additional indications for Soliris, costs, expenses and capital requirements, cash outflows, cash from operations, status of reimbursement, price approval and funding processes in various countries worldwide, progress in developing commercial infrastructure and interest about Soliris and our drug candidates in the patient, physician and payor communities, the safety and efficacy of Soliris and our product candidates, estimates of the potential markets and estimated commercialization dates for Soliris and our drug candidates around the world, sales and marketing plans, any changes in the current or anticipated market demand or medical need for Soliris or our drug candidates, status of our ongoing clinical trials for eculizumab, asfotase alfa and our other product candidates, commencement dates for new clinical trials, clinical trial results, evaluation of our clinical trial results by regulatory agencies, prospects for regulatory approval, need for additional research and testing, the uncertainties involved in the drug development process and manufacturing, performance and reliance on third party service providers, our future research and development activities, plans for acquired companies and programs, assessment of competitors and potential competitors, the outcome of challenges and opposition proceedings to our intellectual property, assertion or potential assertion by third parties that the manufacture, use or sale of Soliris infringes their intellectual property, estimates of the capacity of manufacturing and other facilities to support Soliris and our product candidates, potential costs resulting from product liability or other third party claims, the sufficiency of our existing capital resources and projected cash needs, assessment of impact of recent accounting pronouncements, declines in sovereign credit ratings or sovereign defaults in countries where we sell Soliris, delay of collection or reduction in reimbursement due to adverse economic conditions or changes in government and private insurer regulations and approaches to reimbursement, the short and long term effects of other government healthcare measures, and the effect of shifting foreign exchange rates. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” variations such words and similar expressions are intended to identify such forward-looking statements, although not all forward-looking statements contain these identifying words. These statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Such risks and uncertainties include, but are not limited to, those discussed later in this report under the section entitled “Risk Factors”. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether because of new information, future events or otherwise. However, readers should carefully review the risk factors set forth in this and other reports or documents we file from time to time with the Securities and Exchange Commission.

Business

Overview

We are a biopharmaceutical company focused on serving patients with severe and ultra-rare disorders through the innovation, development and commercialization of life-transforming therapeutic products. Our marketed product Soliris® (eculizumab) is the first and only therapeutic approved for patients with two ultra-rare and severe disorders

resulting from chronic uncontrolled activation of the complement component of the immune system: paroxysmal nocturnal hemoglobinuria (PNH), an ultra-rare and life-threatening blood disorder, and atypical hemolytic uremic syndrome (aHUS), an ultra-rare and life-threatening genetic disease. We are also evaluating other potential indications for Soliris in other severe and ultra-rare diseases in which chronic uncontrolled complement activation is the underlying mechanism, and we are progressing in various stages of development with additional biotechnology product candidates as treatments for patients with other severe and ultra-rare disorders. We were incorporated in 1992 and began commercial sale of Soliris in 2007.

Soliris is designed to inhibit a specific aspect of the complement component of the immune system and thereby treat inflammation associated with chronic disorders in the therapeutic areas of hematology, nephrology, transplant rejection and neurology. Soliris is a humanized monoclonal antibody that effectively blocks terminal complement activity at the doses currently prescribed. The initial indication for which we received approval for Soliris is PNH. PNH is an ultra-rare, debilitating

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and life-threatening, deficiency blood disorder defined by chronic uncontrolled complement activation leading to the destruction of red blood cells, or hemolysis. The chronic hemolysis in patients with PNH may be associated with life-threatening thromboses, recurrent pain, kidney disease, disabling fatigue, impaired quality of life, severe anemia, pulmonary hypertension, shortness of breath and intermittent episodes of dark-colored urine (hemoglobinuria). Soliris was approved for the treatment of PNH by the U.S. Food and Drug Administration (FDA) and the European Commission (EC) in 2007 and by Japan's Ministry of Health, Labour and Welfare (MHLW) in 2010, and has been approved in several other territories. Additionally, in 2003 Soliris was granted orphan drug designation for the treatment of PNH in the United States, Europe, Japan and several other territories.
aHUS is a genetic ultra-rare disease characterized by chronic uncontrolled complement activation and thrombotic microangiopathy, the formation of blood clots in small blood vessels throughout the body, causing a reduction in platelet count (thrombocytopenia) and life-threatening damage to the kidney, brain, heart and other vital organs. In September 2011, Soliris was approved by the FDA for the treatment of pediatric and adult patients with aHUS. Also in November 2011, the EC granted marketing authorization for Soliris to treat pediatric and adult patients with aHUS in Europe. In 2009, the FDA and EC granted Soliris orphan drug designation for the treatment of patients with aHUS.

Recent Developments

Enobia Acquisition
On February 7, 2012, we acquired Enobia Pharma Corp. (Enobia), a privately held clinical-stage biotechnology company based in Montreal, Canada and Cambridge, Massachusetts, in a transaction accounted for under the acquisition method of accounting for business combinations. Enobia's lead product candidate asfotase alfa, is a human recombinant targeted alkaline phosphatase enzyme-replacement therapy for patients suffering with hypophosphatasia (HPP), an ultra-rare, life-threatening, genetic metabolic disease for which there are no approved treatments. We agreed to make an upfront payment of $610,000 subject to purchase price adjustments, which resulted in us making an upfront cash payment of $623,570 for 100% of Enobia's capital stock. Additional contingent payments of up to an aggregate of $470,000 would be due upon reaching various regulatory and sales milestones. We financed the acquisition with existing cash and proceeds from our new credit facility.

Credit Facilities
On February 7, 2012, we and our wholly-owned Swiss subsidiary, Alexion Pharma International Sàrl, entered into a Credit Agreement (Credit Agreement) with the lenders party thereto, Bank of America, N.A., as administrative agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as joint lead arrangers and joint book managers, JPMorgan Chase Bank, N.A., as syndication agent and RBS Citizens, National Association and Suntrust Bank as co-documentation agents. The Credit Agreement provides for a $240,000 senior secured term loan facility and a $200,000 senior secured revolving credit facility, which includes up to a $60,000 sublimit for letters of credit and a $10,000 sublimit for swingline loans. Alexion used the facilities to pay a portion of the consideration for the acquisition of Enobia. The facilities can also be used for working capital requirements, acquisitions and other general corporate purposes. At the same time, we terminated the Prior Credit Agreement.

Clinical
We have focused certain of our product development programs on anti-inflammatory therapeutics for diseases for which we believe current treatments are either non-existent or inadequate. Eculizumab is an antibody known as a C5 terminal complement inhibitor (C5 Inhibitor), which is designed to selectively block the production of inflammation-causing proteins of the complement cascade. We believe that selective suppression of this immune response may provide a significant therapeutic advantage relative to existing therapies. In addition to PNH and aHUS, for which the use of eculizumab has been approved in the United States and Europe and for PNH in several other territories, we believe that C5 Inhibitors may be useful in the treatment of a variety of other serious diseases and conditions resulting from uncontrolled complement activation.

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Our clinical programs, including investigator sponsored clinical programs, are as follows:

Product	Development Area	Indication	Development Stage
Soliris (eculizumab)	Hematology	Paroxysmal Nocturnal Hemoglobinuria (PNH)	Commercial
		PNH Registry	Phase IV
		Cold Agglutinin Disease (CAD)*	Phase II
	Hematology/Nephrology	Atypical Hemolytic Uremic Syndrome (aHUS)	Commercial
		aHUS - Pediatric	Phase IV
		aHUS - Adult	Phase IV
	Nephrology	STEC-HUS (Shiga-toxin producing E. Coli Hemolytic Uremic Syndrome)	Phase II
		MPGN II (Dense Deposit Disease or DDD)*	Phase II
		Presensitized Renal Transplant - Living Donor	Phase II
		ABO Incompatible Renal Transplant*	Phase II
	Neurology	Myasthenia Gravis (MG)	Phase II
		Neuromyelitis Optica (NMO)*	Phase II
	Ophthalmology	Dry Age-Related Macular Degeneration (AMD)*	Phase II
Asfotase alfa	Metabolic Disorders	Hypophosphatasia (HPP)	Phase II
cPMP	Metabolic Disorders	MoCD type A deficiency	Preclinical
ALXN 1102 (TT30)	Hematology	PNH	Phase I
ALXN 1007	Inflammatory Disorders		Phase I
Samalizumab	Oncology	Chronic Lymphocytic Leukemia (CLL)	Phase I

*Investigator Initiated Trial

Our most advanced programs focus on two therapeutic areas: hematology and nephrology. We are also advancing our pipeline programs with a focus primarily on neurology and metabolic disorders.

Soliris (eculizumab)
Hematology
Paroxysmal Nocturnal Hemoglobinuria (PNH)
Our marketed product Soliris® (eculizumab) is the first and only therapy approved for the treatment of patients with PNH, an ultra-rare, debilitating and life-threatening blood disorder in which an acquired genetic deficiency causes uncontrolled complement activation which leads to life-threatening complications. We continue to work with researchers to expand the base of knowledge in PNH and the utility of Soliris to treat patients with PNH. Additionally, we are sponsoring multinational registries to gather information regarding the natural history of patients with PNH and the longer term outcomes during Soliris treatment.
Cold Agglutinin Disease (CAD)

We are aware that dosing is ongoing in an investigator-initiated Phase II study of eculizumab in patients for the treatment of CAD. CAD is a severe, ultra-rare complement-mediated autoimmune disease characterized by the presence of high concentrations of circulating complement-activating antibodies directed against red blood cells. As observed with PNH patients, CAD patients also suffer from the clinical consequences of severe hemolysis.

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Hematology/Nephrology
Atypical Hemolytic Uremic Syndrome (aHUS)
aHUS is an ultra-rare, chronic and life-threatening disease in which uncontrolled complement activation causes blood clots in small blood vessels throughout the body (thrombotic microangiopathy, or TMA) leading to kidney failure, stroke, heart attack and death. We have completed enrollment in a new prospective open-label trial in adult aHUS and, separately, enrollment has been completed in a prospective pediatric aHUS study.

Nephrology

Shiga-toxin producing E. Coli Hemolytic Uremic Syndrome (STEC-HUS)

STEC-HUS is a life-threatening, complement-mediated ultra-rare disorder that results from exposure to Enterohemorrhagic E.Coli, (EHEC). Our STEC-HUS development program was initiated in connection with the widespread outbreak of EHEC in Germany in May and June 2011. Many EHEC patients rapidly progressed to STEC-HUS during this outbreak. As in several other conditions with severe and uncontrolled complement activation, including aHUS, complement activation in STEC-HUS results in TMA. Although aHUS and STEC-HUS exhibit similar life-threatening TMA manifestations, aHUS and STEC-HUS are different disorders. aHUS is a chronic genetic disease of uncontrolled complement activation, while STEC-HUS is not genetic and follows an isolated episode of infection. STEC-HUS is an ultra-rare disorder, comprising only a small sub-set of the already rare population of patients with EHEC. Following an authorization by the Paul-Ehrlich-Institut, Germany's health care regulatory body for biologics, and an access program for patients initiated in May 2011, we initiated an open-label clinical trial to investigate eculizumab as a treatment for patients with STEC-HUS.
Dense Deposit Disease (DDD)
We are aware that independent investigators have commenced studies to evaluate eculizumab in patients with DDD as well as patients with a similar disease referred to as C3nef nephropathy. DDD, also called Type II membrano-proliferative glomerulonephritis, is an ultra-rare form of glomerulonephritis, associated with genetic mutations in complement inhibitor genes leading to sustained uncontrolled complement activation and inflammation. Clinically, it is characterized by the onset of severe proteinuria (excess protein in the urine), often accompanied by nephrotic syndrome which is refractory to immunosuppressant therapy. In most cases, the disease progresses to chronic renal failure, requiring dialysis and renal transplantation.
Acute Humoral Rejection (AHR) in Presensitized Kidney Transplant Patients
We initiated enrollment in a multi-national, multi-site controlled clinical trials of eculizumab in presensitized renal transplant patients at elevated risk for AHR who will receive living donor grafts. We are also aware that independent investigators have completed enrollment of patients in clinical trials to evaluate eculizumab in presensitized renal transplant patients at elevated risk for AHR. Preliminary results from one of the investigator initiated trials was published in September 2011 in the American Journal of Transplantation. We are also aware that an independent investigator has also started enrolling patients in a clinical trial to evaluate eculizumab in kidney transplant patients sensitized to their donor kidney due to an ABO blood group mismatch between donor and recipient.
Neurology
Myasthenia Gravis (MG)
The FDA authorized our Investigational New Drug Application (IND) for studying the safety and efficacy of eculizumab in treating patients with severe, refractory MG, an ultra-rare autoimmune syndrome characterized by uncontrolled complement activation leading to the failure of neuromuscular transmission. Enrollment has closed with 14 patients. Preliminary data from the Phase II trial demonstrated an encouraging disease improvement signal and was presented at the Myasthenia Gravis Foundation Annual Meeting in September 2011.
Neuromyelitis Optica (NMO)
We are aware that independent investigators are examining the role of eculizumab for the treatment of patients with severe, refractory NMO, an ultra-rare autoimmune disease of the central nervous system (CNS) that affects the optic

nerves and spinal cord. Enrollment in the investigator initiated trial has been completed.

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Ophthalmology
Dry Age-Related Macular Degeneration (AMD)
We are aware of an independent investigator who has completed enrollment of patients in a study evaluating whether or not complement inhibition with intravenous, but not direct intra-acular, eculizumabmay play a role in the dry form of age-related macular degeneration. Age-related macular degeneration is a medical condition usually affecting older adults in which complement activation results in a loss of vision in the center of the visual field (the macular) and complement-mediated damage to the retina. AMD is a significant cause of visual impairment in older adults.

Asfotase Alfa
Hypophosphatasia (HPP)
HPP is an ultra-rare, genetic, and life-threatening metabolic disease characterized by impaired phosphate and calcium regulation, leading to progressive damage to multiple vital organs including destruction and deformity of bones, profound muscle weakness, seizures, impaired renal function, and respiratory failure. The severe manifestations of the genetic deficiency in HPP affect people of all ages, and approximately 50% of infants with the disease do not survive past one year of age. HPP is caused by mutations in the gene encoding the enzyme Tissue Nonspecific Alkaline Phosphatase. This enzyme normally breaks down metabolic substrates such as inorganic pyrophosphateand pyridoxal phosphate.
Asfotase alfa, a targeted enzyme replacement therapy in Phase II clinical trials for patients with HPP, directly addresses the morbidities and mortality of HPP by targeting alkaline phosphatase directly to the deficient tissue. In this way, asfotase alfa is designed to normalize the genetically defective metabolic process and prevent or reverse the severe, crippling and life-threatening complications of dysregulated mineral metabolism in patients with HPP. Initial studies with asfotase alfa in HPP patients indicate that the treatment significantly decreases the levels of targeted metabolic substrates. We acquired asfotase alfa in February 2012 in connection with our acquisition of Enobia.

cPMP
Molybdenum Cofactor Deficiency (MoCD) Disease Type A (MoCD Type A)
MoCD Type A is a rare metabolic disorder characterized by severe and rapidly progressive neurologic damage and death in newborns. MoCD Type A results from a genetic deficiency in cyclic Pyranopterin Monophosphate (cPMP), a molecule that enables production of certain enzymes, the absence of which allows neurotoxic sulfite to accumulate in the brain. To date, there is no approved therapy available for MoCD Type A. We acquired assets related to a cPMP replacement therapy from Orphatec Pharmaceuticals GmbH in February 2011. There has been some early clinical experience with the cPMP replacement therapy in a small number of children with MoCD Type A.

ALXN 1102
ALXN 1102 (formerly TT30) is a novel alternative pathway complement inhibitor with a mechanism of action unique from Soliris. We acquired a portfolio of preclinical product candidates, including TT30, in January 2011 in connection with the purchase of all of the equity interests of Taligen. ALXN 1102 is currently being investigated in a Phase I single dose, dose escalating safety and pharmacology study.

ALXN 1007
ALXN 1007 is a novel humanized antibody designed to target rare and severe inflammatory disorders and is a product of our proprietary antibody discovery technologies. ALXN 1007 is currently being investigated in a Phase I single dose, dose escalating safety and pharmacology study in healthy volunteers.
Samalizumab

Samalizumab is our proprietary humanized monoclonal antibody directed against the cell surface protein CD200. Samalizumab is designed to modulate the immune system and destroy tumors expressing the CD200 protein.

The FDA authorized our IND to evaluate the activity of samalizumab, an antibody to the immune regulator CD200, in patients with chronic lymphocytic leukemia (CLL). CLL is a type of cancer of the blood and bone marrow. CLL most commonly affects older adults, though it may occur at any age and rarely can affect children.

Enrollment and dosing has now been completed in our Phase I dose-escalation clinical study of samalizumab in patients with treatment refractory CLL or multiple myeloma. The trial enrolled 26 patients, and positive interim results from this trial were reported at the 2010 American Society for Hematology meeting.

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Manufacturing

We currently rely on two manufacturing facilities, Alexion's Rhode Island manufacturing facility (ARIMF) and Lonza Group AG and its affiliates (Lonza), to produce commercial and clinical quantities of Soliris and for clinical quantities of asfotase alfa. Our clinical and preclinical quantities of other product candidates are produced ARIMF. We also depend on a limited number of third party providers for other services with respect to our clinical and commercial requirements, including product finishing, packaging, vialing and labeling.

We have various agreements with Lonza, with remaining total commitments of approximately $207,500 through 2018. Such commitments may be canceled only in limited circumstances. If we terminate certain supply agreements with Lonza without cause, we will be required to pay for product scheduled for manufacture under our arrangement. Under an existing arrangement with Lonza, we also pay Lonza a royalty on sales of Soliris manufactured at ARIMF.

Critical Accounting Policies and the Use of Estimates

The significant accounting policies and basis of preparation of our consolidated financial statements are described in Note 1, “Business Overview and Summary of Significant Accounting Policies” of our financial statements included in our Form 10-K for the year ended December 31, 2011. Under accounting principles generally accepted in the United States, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities in our financial statements. Actual results could differ from those estimates.

We believe the judgments, estimates and assumptions associated with the following critical accounting policies have the greatest potential impact on our consolidated financial statements:

- Revenue recognition;
- Contingent liabilities;
- Inventories;
- Research and development expenses;
- Share-based compensation;
- Valuation of goodwill, acquired intangible assets and in-process research and development (IPR&D);
- Valuation of contingent consideration; and
- Income taxes.

For a complete discussion of these critical accounting policies, refer to “Critical Accounting Policies and Use of Estimates” within “Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations” included within our Form 10-K for the year ended December 31, 2011. We have reviewed our critical accounting policies as disclosed in our Form 10-K, and we have not noted any material changes.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued a new standard on fair value measurement and disclosure requirements. The new standard changes fair value measurement principles and disclosure requirements including measuring the fair value of financial instruments that are managed within a portfolio, the application of applying premiums and discounts in a fair value measurement, and additional disclosure about fair value measurements. The adoption of this guidance in the first quarter 2012 did not have a material effect on our condensed consolidated financial statements.

In June 2011, the FASB issued a new standard on the presentation of comprehensive income. The new standard eliminated the current option to report other comprehensive income and its components in the statement of changes in equity. Under the new standard, companies can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. We adopted the provisions of this guidance during the first quarter 2012.

In September 2011, the FASB issued a new standard to simplify how an entity tests goodwill for impairment. The new standard allows companies an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining if it is necessary to

perform the two-step quantitative goodwill impairment test. Under the new standard, a company is no longer required to calculate the fair value of a reporting unit unless the company determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. We will adopt the provisions of the guidance for our annual impairment test in 2012.

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Results of Operations

Net Product Sales

The following table summarizes net product sales for the three months ended March 31, 2012 and 2011:

	Three months ended March 31,		
	2012	2011	$ Variance
Net product sales	$244,733	$166,126	$78,607

The increase in revenue for the three months ended March 31, 2012, as compared to the same period in 2011, was primarily due to an increased number of patients treated with Soliris globally. The increase in treated patients was due to additional patients and physicians requesting Soliris therapy, as well as reimbursement and price approvals in additional territories, including approval for PNH incertain provinces in Canada in the third quarter of 2011 and approval for aHUS in the United States in the third quarter 2011.

The increase in revenues was offset by the negative impact of approximately $2,931 for the three months ended March 31, 2012 due to changes in foreign currency exchange rates (inclusive of hedging activity) versus the dollar for the three months ended March 31, 2011. The negative impact was primarily due to the Euro and the British Pound offset by a positive impact of the Japanese Yen.

Cost of Sales

Cost of sales were $28,268 and $19,228 for the three months ended March 31, 2012 and 2011, respectively. Cost of sales as a percentage of net revenue was 11.6% and 11.6% for the three months ended March 31, 2012 and 2011, respectively. Cost of sales includes manufacturing costs as well as actual and estimated royalty expenses associated with sales of Soliris.

We are currently involved in various claims and legal proceedings. On a quarterly basis, we review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim, asserted or unasserted, or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Because of uncertainties related to claims and litigation, accruals are based on our best estimates based on available information. On a periodic basis, as additional information becomes available, or based on specific events such as the outcome of litigation or settlement of claims, we may reassess the potential liability related to these matters and may revise these estimates, which could result in a material adverse adjustment to our cost of sales.

Research and Development Expense

Our research and development expense includes personnel, facility and external costs associated with the research and development of our product candidates, as well as product development costs. We group our research and development expenses into two major categories: external direct expenses and all other R&D expenses.

External direct expenses are comprised of costs paid to outside parties for clinical development, product development and discovery research. Clinical development costs are comprised of costs to conduct and manage clinical trials related to eculizumab and other product candidates. Product development costs are those incurred in performing duties related to manufacturing development and regulatory functions. Discovery research costs are incurred in conducting laboratory studies and performing preclinical research for other uses of eculizumab and other product candidates. Clinical development costs have been accumulated and allocated to each of our programs, while product development and discovery research costs have not been allocated.

All other R&D expenses consist of costs to compensate personnel, to maintain our facility, equipment and overhead and similar costs of our research and development efforts. These costs relate to efforts on our clinical and preclinical products, our product development and our discovery research efforts. These costs have not been allocated directly to each program.

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The following table provides information regarding research and development expenses:

	Three months ended March 31,		
	2012	2011	$ Variance
Clinical development	$12,279	$6,593	$5,686
Product development	7,794	3,443	4,351
Discovery research	1,882	646	1,236
Total external direct expenses	21,955	10,682	11,273
Payroll and benefits	20,568	16,777	3,791
Operating and occupancy	1,341	1,995	(654)
Depreciation and amortization	1,544	1,356	188
Total other R&D expenses	23,453	20,128	3,325
Research and development expense	$45,408	$30,810	$14,598

For the three months ended March 31, 2012, the increase of $14,598 in research and development expense, as compared to the same period in the prior year, was primarily related to the following:

- Increase of $5,686 in external clinical development expenses related primarily to an expansion of studies of eculizumab for non-PNH indications and studies of HPP associated with our acquisition of Enobia (see table below).
- Increase of $4,351 in external product development expenses related primarily the acquisition of Enobia's HPP program and to costs associated with our clinical programs and regulatory affairs for supporting other clinical programs, including aHUS and MoCD.
- Increase of $1,236 in discovery research expenses related primarily to costs associated with our translation medicine group in Cambridge and our acquisition of Enobia.
- Increase of $3,791 in research and development payroll and benefit expense related primarily to global expansion of staff supporting our increasing number of clinical and development programs.

The following table summarizes external direct expenses related to our clinical development programs. Please refer to "Clinical" above for a description of each of these programs:

	Three months ended March 31,		
	2012	2011	$ Variance
External direct expenses			
Eculizumab: PNH program	$2,030	$1,299	$731
Eculizumab: non-PNH programs	8,001	4,734	3,267
Asfotase alfa: HPP	924	—	924
Samalizumab	383	91	292
Other	559	—	559
Unallocated	382	469	(87)
	$12,279	$6,593	$5,686

The successful development of our drug candidates is uncertain and subject to a number of risks. We cannot guarantee that results of clinical trials will be favorable or sufficient to support regulatory approvals for our other programs. We could decide to abandon development or be required to spend considerable resources not otherwise contemplated. For additional discussion regarding the risks and uncertainties regarding our development programs, please refer to the Risk Factors in this Form 10-Q.

Selling, General and Administrative Expense

Our selling, general and administrative expense includes commercial and administrative personnel, corporate facility and external costs required to support the marketing and sales of our commercialized products. These selling, general and administrative costs include: corporate facility operating expenses and depreciation; marketing and sales

operations in support of Soliris; human resources; finance, legal, information technology and support personnel expenses; and other corporate costs

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such as telecommunications, insurance, audit and legal expenses.

The table below provides information regarding selling, general and administrative expense:

	Three months ended March 31,		
	2012	2011	$ Variance
Selling, general and administrative expense	$87,242	$65,858	$21,384

For the three months ended March 31, 2012, the increase of $21,384 in selling, general and administrative expense, as compared to the same period in the prior year, was primarily related to the following:

- Increase in salary, benefits and other labor expenses of $11,500. The increase was a result of increased headcount related to commercial development activities, including increases in payroll and benefits costs of $9,500 related to our global commercial staff to support global expansion. This increase was also due to increases