Lloyds Banking Group plc
Form SC TO-C
March 06, 2014

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

SCHEDULE TO

(RULE 14d-100)
TENDER OFFER STATEMENT UNDER SECTION 14(d)(1) OR 13(e)(1) OF THE SECURITIES EXCHANGE ACT OF 1934

LLOYDS BANKING GROUP PLC
LBG CAPITAL NO. 1 PLC
LBG CAPITAL NO. 2 PLC
(Names of Subject Companies (Issuers))

LLOYDS BANKING GROUP PLC
(Name of Filing Person (Offeror))

LBG Capital No. 1 plc 7.875% Dated Enhanced Capital Notes due 2020 (ISIN XS0459093521 and XS0459093794)
LBG Capital No. 2 plc 7.875% Dated Enhanced Capital Notes due 2020 (ISIN XS0496068429)
LBG Capital No. 1 plc 8.00% Fixed-to-Floating Rate Undated Enhanced Capital Notes (ISIN XS0473106283 and XS0471767276)
LBG Capital No. 1 plc 8.50% Fixed-to-Floating Rate Undated Enhanced Capital Notes (ISIN XS0473103348 and XS0471770817)
(Title and CUSIP No. of Class of Securities)

Lloyds Banking Group plc
25 Gresham Street
London EC2V 7HN
United Kingdom
011-44-207-626-1500
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications on Behalf of Filing Person)

Copies to:
John W. Banes
Davis Polk & Wardwell London LLP
99 Gresham Street
London EC2V 7NG
United Kingdom
Tel. No.: 011-44-207-418-1300

CALCULATION OF FILING FEE

Transaction Valuation*	Amount of Filing Fee

N/A	N/A

Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

* Pursuant to General Instruction D to Schedule TO, no filing fee is required for pre-commencement communications.

x Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

	third-party tender offer subject to Rule 14d-1.
x	issuer tender offer subject to Rule 13e-4.
	going-private transaction subject to Rule 13e-3.
	amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer:

If applicable, check the appropriate box(es) below to designate the appropriate rule provision(s) relied upon:

Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

On March 6, 2014, Lloyds Banking Group plc (the “Company”) issued a press release in which LBG Capital No. 1 plc and LBG Capital No. 2 plc announced their intention to commence concurrent exchange offers for certain of their outstanding euro and sterling denominated enhanced capital notes (the “Non-US Offer”) and certain US dollar denominated enhanced capital notes (the “US Dollar Offer”) for specified series of series of Additional Tier 1 Securities to be issued by the Company. Only the US Dollar Offer will be available to holders of enhanced capital notes that are U.S. residents. The press release is attached as Exhibit 99(a)(5).

The exchange offers, including the US Dollar Offer, have not commenced. Upon commencement of the US Dollar Offer, the Company will file with the Securities and Exchange Commission (“SEC”) a registration statement on Form F-4 (“Registration Statement”) (including the Prospectus contained therein) and a tender offer statement on Schedule TO relating to the US Dollar Offer. No offers can be accepted until the Registration Statement is declared effective. Holders of the enhanced capital notes are urged to read carefully these documents when they become available because they will contain important information about the US Dollar Offer. Copies of these documents are available for free by visiting EDGAR on the SEC website at www.sec.gov.

Item 12. Exhibits.

The following is included as an exhibit to this Schedule TO:

Number	Description
99(a)(5)	Press release announcing LBG Capital No. 1 plc’s and LBG Capital No. 2 plc’s intention to commence an exchange offer, dated March 6, 2014.

EXHIBIT INDEX

Number	Description
99(a)(5)	Press release announcing LBG Capital No. 1 plc's and LBG Capital No. 2 plc's intention to commence an exchange offer, dated March 6, 2014.

P>

The following customer or collaborator accounts for more than 10% of our accounts receivable at December 31, 2011 and/or 2010:

	2011	2010
AmerisourceBergen Corp.	65%	44%
Biogen Idec	35%	25%

No other customer and collaborator accounted for more than 10% of our accounts receivable balance at either December 31, 2011 or 2010.

As of December 31, 2011, trade receivables of $Nil (2010: $0.6 million) were past due but not impaired. The ageing analysis of these trade receivables at December 31 of each year consisted of the following (in millions):

	2011	2010
Up to 3 months	$	$ 0.6

At December 31, 2011, trade receivables of $Nil (2010: $0.4 million) were impaired and provided for.

15. Investment Securities

Current investment securities

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

	2011	2010
Equity securities current, at cost	$ 0.3	$ 0.4
Unrealized gains on equity securities	0.1	1.7
Unrealized losses on equity securities	(0.1)	(0.1)
Total investment securities current	$ 0.3	$ 2.0

Equity securities current

Marketable equity securities primarily consists of investments in emerging pharmaceutical and biotechnology companies. The fair market value of these securities was $0.3 million at December 31, 2011 (2010: $2.0 million).

139

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Non-current investment securities

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

	2011	2010
Equity securities non-current, at cost less impairments	$ 9.8	$ 9.2
Debt securities non-current, at cost less impairments		0.3
Unrealized (losses)/gains on debt securities		(0.1)
Total investment securities non-current	$ 9.8	$ 9.4

Equity securities non-current

Non-current equity securities are comprised of investments held in privately held biotech companies recorded at cost, less impairments.

Debt securities non-current

During 2011, we disposed of our non-current debt securities. At December 31, 2010, the non-current debt securities balance consisted of an investment in auction rate securities (ARS), which had a fair market value of $0.2 million, including an unrealized loss of $0.1 million.

Net Investment Gains (in millions)

	2011	2010	2009
Net gains on sale of current investment securities	$ (0.1)	$ (4.9)	$ (1.2)
Derivative fair value gains		(1.2)	(0.3)
Net gains on sale of non-current investment securities	(2.3)	(7.9)	
Net investment gains on investment securities	(2.4)	(14.0)	(1.5)
Other	(0.2)	1.2	0.9
Net investment gains	$ (2.6)	$ (12.8)	$ (0.6)

The framework used for measuring the fair value of our investment securities is described in Note 27.

16. Inventory

Product inventories at December 31 of each year consisted of the following (in millions):

	2011	2010
Raw materials	$	$ 10.0
Work-in-process		6.0

Finished goods	23.8	23.0
Total inventory	$ 23.8	$ 39.0

The decrease in the inventory balance is principally due to the divestment of the EDT business.

140

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Prepaid and Other Current Assets

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

	2011	2010
Deferred consideration	$ 11.4	$
Prepayments	10.8	11.6
Other current assets	3.5	3.8
Total prepaid and other current assets	$ 25.7	$ 15.4

The deferred consideration balance relates to the present value of deferred non-contingent consideration receivable from Azur in respect of the divestment of the Prialt assets and rights in May 2010. The deferred non-contingent consideration receivable balance has been reclassified from other non-current assets as we expect to receive this consideration during 2012. For additional information on this transaction, refer to Note 6.

18. Property, Plant and Equipment

	Land & Buildings	Plant & Equipment (In millions)	Total
Cost:			
At January 1, 2010	$ 353.0	$ 304.5	$ 657.5
Additions	24.3	16.5	40.8
Disposals	(1.4)	(1.1)	(2.5)
At December 31, 2010	$ 375.9	$ 319.9	$ 695.8
Additions	19.4	9.4	28.8
Impairment	(29.8)	(14.6)	(44.4)
Disposals	(283.3)	(250.8)	(534.1)
At December 31, 2011	$ 82.2	$ 63.9	$ 146.1
Accumulated depreciation and impairment:			
At January 1, 2010	$ (143.1)	$ (221.6)	$ (364.7)
Charged in year	(13.4)	(21.5)	(34.9)
Impairment	(10.7)	(0.3)	(11.0)
Disposals		2.3	2.3
At December 31, 2010	$ (167.2)	$ (241.1)	$ (408.3)
Charged in year	(8.6)	(11.3)	(19.9)
Impairment	21.5	12.9	34.4
Disposals	132.6	198.3	330.9

At December 31, 2011	(21.7)	(41.2)	(62.9)
Net book value: December 31, 2011	$ 60.5	$ 22.7	$ 83.2
Net book value: December 31, 2010	$ 208.7	$ 78.8	$ 287.5

On September 16, 2011, we announced the completion of the merger between Alkermes, Inc. and EDT. In connection with this transaction, we disposed of land and buildings with a net book value of $150.7 million and plant and equipment with a net book value of $51.3 million related to EDT. For additional information on this transaction, refer to Note 5.

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2011, we recorded an asset impairment charge of $10.0 million within other net charges in the Consolidated Statement of Operations relating to a consolidation of facilities in South San Francisco and the closure of EDT s King of Prussia, Pennsylvania site. In 2010, the asset impairment charge of $11.0 million related to the consolidation of facilities in South San Francisco.

The net book value of assets acquired under capital leases at December 31, 2011 amounted to $Nil (2010: $1.5 million). Depreciation expense for these assets for the year ended December 31, 2011 amounted to $0.3 million (2010: $1.4 million; 2009: $2.1 million).

19. Goodwill and Other Intangible Assets

	Goodwill	Other Intangible Assets (In millions)	Total
Cost:			
At January 1, 2010	$ 257.7	$ 783.6	$ 1,041.3
Additions		3.4	3.4
Disposals	(0.6)	(361.0)	(361.6)
At December 31, 2010	$ 257.1	$ 426.0	$ 683.1
Additions		2.6	2.6
Disposals	(49.7)	(173.0)	(222.7)
Impairment		(0.3)	(0.3)
At December 31, 2011	$ 207.4	$ 255.3	$ 462.7
Accumulated amortization:			
At January 1, 2010	$	$ (623.9)	$ (623.9)
Charged in year		(28.4)	(28.4)
Disposals		346.6	346.6
Impairment		(0.9)	(0.9)
At December 31, 2010	$	$ (306.6)	$ (306.6)
Charged in year		(15.9)	(15.9)
Disposals		169.7	169.7
At December 31, 2011		(152.8)	(152.8)
Net book value: December 31, 2011	$ 207.4	$ 102.5	$ 309.9
Net book value: December 31, 2010	$ 257.1	$ 119.4	$ 376.5

Other intangible assets consist primarily of patents, licenses, intellectual property and computer software as follows (in millions):

	2011	2010
Tysabri	$ 96.9	$ 109.5
Other intangible assets	5.6	9.9
Total other intangible assets	$ 102.5	$ 119.4

142

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

We divested our Prialt assets and rights to Azur in May 2010. As part of the Prialt divestment, we disposed of patents, licenses and intellectual property with a net book value of $14.3 million (comprised of cost of $88.2 million net of accumulated amortization of $73.9 million). We also disposed of $0.6 million of goodwill which was allocated to the Prialt business. For additional information relating to the net loss on Prialt divestment, please refer to Note 6. Other disposals during 2010 include the write-off of the fully amortized Maxipime and Azactam intangible assets as we ceased distribution of both products in 2010 (comprised of cost of $258.4 million net of accumulated amortization of $258.4 million).

The weighted-average remaining useful life for other intangible assets at December 31, 2011 was 7.6 years (2010: 8.4 years).

Amortization expense for the year ended December 31, 2011 amounted to $15.9 million (2010: $28.4 million; 2009: $40.5 million) and is recorded as cost of sales, selling, general and administrative (SG&A) expenses and R&D expenses in the Consolidated Statements of Operations, as it relates to the respective functions.

As of December 31, 2011, our expected future amortization expense of currently held other intangible assets is as follows (in millions):

Year ending December 31, 2012	$ 14.7
2013	14.3
2014	13.5
2015	12.6
2016	12.1
2017 and thereafter	35.3
Total	$ 102.5

20. Other Assets

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

	2011	2010
Deferred financing costs	$ 11.1	$ 21.3
Deferred consideration		10.2
Other	13.4	13.9
Total other assets	$ 24.5	$ 45.4

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Accrued and Other Current Liabilities, and Other Long-Term Liabilities

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

	2011	2010
Accrued royalties payable	$ 73.3	$ 63.3
Payroll and related taxes	32.5	40.9
Accrued rebates	31.7	22.6
Sales and marketing accruals	23.4	22.0
Clinical trial accruals	15.2	13.8
Accrued interest	11.4	18.3
Restructuring accruals	9.7	12.9
Deferred rent	1.9	3.5
Litigation accruals	0.7	207.0
Deferred revenue	0.3	1.0
Transition Collaboration Agreement modification payment		9.0
Other accruals	29.8	28.2
Total accrued and other current liabilities	$ 229.9	$ 442.5

The litigation accruals balance at December 31, 2010 included a $206.3 million settlement reserve relating to Zonegran. For further information on the Zonegran settlement, please refer to Notes 7 and 30. For further information on the Transition Therapeutics payment, please refer to Note 6.

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

	2011	2010
Deferred rent	$ 17.0	$ 18.8
Unfunded pension liability	12.2	19.9
Accrued income tax payable	6.2	11.1
Deferred revenue	0.4	0.7
Other	24.9	20.6
Total other long-term liabilities	$ 60.7	$ 71.1

The unfunded pension liability at December 31, 2011 and 2010 relates to two defined benefit pension plans. For additional information, refer to Note 25.

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Severance, restructuring and other charges accrual

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

Balance at December 31, 2008	$ 10.9
Restructuring and other charges	30.3
Reversal of prior year accrual	(0.6)
Cash payments	(34.8)
Non-cash charges	(1.7)
Balance at December 31, 2009	$ 4.1
Restructuring and other charges	19.4
Reversal of prior year accrual	(0.5)
Cash payments	(9.1)
Non-cash charges	(1.0)
Balance at December 31, 2010	$ 12.9
Restructuring and other charges	20.4
Reversal of prior year accrual	(1.0)
Cash payments	(21.5)
Non-cash charges	(1.1)
Balance at December 31, 2011	$ 9.7

22. Long-Term Debt

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

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

Long-term debt at December 31, 2010 consisted of the following (in millions):

	Original Maturity	Principal Amount	Original Issue Discount	Carrying Value
2013 Fixed Rate Notes	December 2013	449.5		449.5
2013 Floating Rate Notes	December 2013	10.5		10.5

2016 Notes issued October 2009	October 2016	625.0	(7.0)	618.0
2016 Notes issued August 2010	October 2016	200.0	(7.6)	192.4
Total debt		$ 1,285.0	$ (14.6)	$ 1,270.4

2016 Notes issued October 2009

In October 2009, we completed the offering and sale of $625.0 million in aggregate principal amount of the 2016 Notes issued October 2009, issued by Elan Finance plc and guaranteed by Elan Corporation, plc and certain

145

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of our subsidiaries. The 2016 Notes issued October 2009 bear interest at an annual rate of 8.75%. On September 16, 2011, we issued an offer (the Asset Sale Offer) to purchase up to $721.2 million in aggregate principal amount of the Senior Notes consisting of the 2013 Fixed Rate Notes, the 2013 Floating Rate Notes, the 2016 Notes issued October 2009 and the 2016 Notes issued August 2010, in accordance with the terms of the indenture governing these notes, at a purchase price of 100% of the aggregate principal amount thereof, plus accrued and unpaid interest to the date of payment. The Asset Sale Offer expired on October 14, 2011 and holders of $0.5 million of the 2016 Notes issued October 2009 tendered their notes. On October 20, 2011, we repurchased $152.4 million in aggregate principal amount of the 2016 Notes issued October 2009 in a separate private transaction.

At any time prior to October 15, 2012, we may redeem the outstanding 2016 Notes issued October 2009, in whole, but not in part, at a price equal to 100% of their principal amount, plus a make-whole premium and accrued but unpaid interest. We may redeem the 2016 Notes issued October 2009, in whole or in part, beginning on October 15, 2012 at an initial redemption price of 108.75% of their principal amount, which decreases to par over time, plus accrued and unpaid interest. In addition, at any time prior to October 15, 2012, we may redeem up to 35% of the 2016 Notes issued October 2009, using the proceeds of certain equity offerings at a redemption price of 108.75% of the principal, plus accrued and unpaid interest. Interest is paid in cash semi-annually. For additional information, refer to Note 33.

The outstanding $472.1 million principal amount of the 2016 Notes issued October 2009 at December 31, 2011 (2010: $625.0 million) is recorded net of the unamortized original issue discount of $4.5 million (2010: $7.0 million).

2016 Notes issued August 2010

In August 2010, we completed the offering and sale of $200.0 million in aggregate principal amount of the 2016 Notes issued August 2010, issued by Elan Finance plc and guaranteed by Elan Corporation, plc and certain of our subsidiaries. The 2016 Notes issued August 2010 bear interest at an annual rate of 8.75%. On October 20, 2011, we repurchased $47.6 million in aggregate principal amount of the 2016 Notes issued August 2010 in a private transaction.

At any time prior to October 15, 2012, we may redeem the outstanding 2016 Notes issued August 2010, in whole, but not in part, at a price equal to 100% of their principal amount, plus a make-whole premium and accrued but unpaid interest. We may redeem the outstanding 2016 Notes issued August 2010, in whole or in part, beginning on October 15, 2012 at an initial redemption price of 108.75% of their principal amount, which decreases to par over time, plus accrued and unpaid interest. In addition, at any time prior to October 15, 2012, we may redeem up to 35% of the 2016 Notes issued August 2010, using the proceeds of certain equity offerings at a redemption price of 108.75% of the principal, plus accrued and unpaid interest. Interest is paid in cash semi-annually. For additional information, refer to Note 33.

The outstanding $152.4 million principal amount of the 2016 Notes issued August 2010 at December 31, 2011 (2010: $200.0 million) is recorded net of the unamortized original issue discount of $5.0 million (2010: $7.6 million).

2013 Fixed Rate Notes

In November 2006, we completed the offering and sale of $465.0 million in aggregate principal amount of the 2013 Fixed Rate Notes, issued by Elan Finance plc. Elan Corporation, plc and certain of our subsidiaries have guaranteed the 2013 Fixed Rate Notes. The 2013 Fixed Rate Notes bear interest at an annual rate of 8.875%. Under the terms of our debt covenants, we were required to apply some of the proceeds received from the September 17, 2009 transaction with Johnson & Johnson to make a pro-rata offer to repurchase a portion of our debt at par. Accordingly, on August 30, 2010, we issued an offer to purchase up to $186.0 million in aggregate principal amount

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of 2013 Floating Rate Notes and the 2013 Fixed Rate Notes in accordance with the terms of the indenture governing these notes, at a purchase price of 100% of the principal amount thereof, plus accrued and unpaid interest to the date of payment. The offer closed on September 30, 2010 and we received tenders in respect of $15.5 million in principal amount of the 2013 Fixed Rate Notes.

Under the Asset Sale Offer discussed above, holders of $4.0 million in aggregate principal amount of the 2013 Fixed Rate Notes tendered their notes on October 14, 2011. On September 16, 2011, we also announced a cash tender offer (the Tender Offer) for the outstanding $449.5 million in aggregate principal amount of the 2013 Fixed Rate Notes. The total consideration for the Tender Offer was $1,032.39 per $1,000 principal amount of the 2013 Fixed Rate Notes, plus accrued and unpaid interest to the date of payment. The Tender Offer expired on October 14, 2011 and holders of $443.7 million in aggregate principal amount of the 2013 Fixed Rate Notes tendered their notes. On December 1, 2011, we repurchased the remaining $1.8 million in aggregate principal amount of the 2013 Fixed Rate Notes.

2013 Floating Rate Notes

In November 2006, we also completed the offering and sale of $150.0 million in aggregate principal amount of the 2013 Floating Rate Notes, also issued by Elan Finance plc. The 2013 Floating Rate Notes bear interest at an annual rate, adjusted quarterly, equal to the three-month London Interbank Offer Rate (LIBOR) plus 4.125%. Elan Corporation, plc and certain of our subsidiaries have guaranteed the 2013 Floating Rate Notes. As described above, we issued an offer to purchase up to $186.0 million in aggregate principal amount of 2013 Floating Rate Notes and the 2013 Fixed Rate Notes in accordance with the terms of the indenture governing these notes. The offer closed on September 30, 2010 and we received tenders in respect of $139.5 million in principal amount of the 2013 Floating Rate Notes. As described above, on September 16, 2011 we also issued an Asset Sale Offer to purchase up to $721.2 million in aggregate principal amount of the Senior Notes consisting of the 2013 Fixed Rate Notes, the 2013 Floating Rate Notes, the 2016 Notes issued October 2009 and the 2016 Notes issued August 2010 in accordance with the terms of the indenture governing these notes, at a purchase price of 100% of the aggregate principal amount thereof, plus accrued and unpaid interest to the date of payment. The Asset Sale Offer expired on October 14, 2011 and holders of $7.3 million in aggregate principal amount of the 2013 Floating Rate Notes tendered their notes. On September 16, 2011, we also announced the election to redeem all of the 2013 Floating Rate Notes not purchased in the Asset Sale Offer. Pursuant to this redemption, $3.2 million in aggregate principal amount of the 2013 Floating Rate Notes were redeemed at a redemption price of 100% of the aggregate principal amount thereof, plus accrued but unpaid interest thereon to the date of payment.

Covenants

The agreements governing some of our outstanding long-term 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 ratios, however, they do restrict within certain limits our ability to, among other things:

- Incur additional debt;
- Create liens;
- Enter into certain transactions with related parties;
- Enter into certain types of investment transactions;

Engage in certain 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.

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 and may result in a default under our other indebtedness subject to cross acceleration provisions.

23. Share Capital

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

Authorized Share Capital	No. of Ordinary Shares 2011	2010
Ordinary Shares (par value 0.05)	810,000,000	810,000,000
Executive Shares (par value 1.25) (the Executive Shares)	1,000	1,000
B Executive Shares (par value 0.05) (the B Executive Shares)	25,000	25,000

Issued and Fully Paid Share Capital	At December 31, 2011 Number	$000s	At December 31, 2010 Number	$000s
Ordinary Shares	589,346,275	36,158	585,201,576	35,850
Executive Shares	1,000	2	1,000	2
B Executive Shares	21,375	2	21,375	2

The holders of Executive Shares do not have the right to receive notice of, attend or vote at any of our meetings, or the right to be paid a dividend out of our profits, except for such dividends as the directors may from time to time determine.

The holders of B Executive Shares have the same voting rights as the holders of Ordinary Shares. The holders of B Executive Shares do not have the right to be paid a dividend out of our profits except for such dividends as the directors may from time to time determine.

24. Accumulated Other Comprehensive Income/(Loss)

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

	2011	2010
Net unrealized gains on investment securities	$	$ 1.5
Currency translation adjustments	(0.1)	(11.2)
Unamortized net actuarial loss on pension plans	(37.0)	(32.8)
Unamortized prior service cost on pension plans	(0.3)	(0.6)
Accumulated other comprehensive loss	$ (37.4)	$ (43.1)

In connection with the EDT transaction, we released $11.2 million of the currency translation reserve relating to non-U.S. dollar functional currency companies that were part of the EDT business. For additional information on the divestment of the EDT business, refer to Note 5.

25. Pension and Other Employee Benefit Plans

Pension

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

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In general, on retirement, eligible employees in the staff scheme are entitled to a pension calculated at 1/60th (1/52nd for the executive scheme) of their final salary for each year of service, subject to a maximum of 40 years. These plans are managed externally and the related pension costs and liabilities are assessed in accordance with the advice of a qualified professional actuary. The investments of the plans at December 31, 2011 consisted of units held in independently administered funds.

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

	2011	2010
Projected benefit obligation at January 1	$ 97.3	$ 87.5
Service cost	3.4	3.2
Interest cost	4.6	4.2
Plan participants contributions	1.5	1.7
Actuarial loss	6.7	7.8
Benefits paid and other disbursements	(1.6)	(1.3)
Curtailment gain	(8.8)	
Foreign currency exchange rate changes	(3.4)	(5.8)
Projected benefit obligation at December 31	$ 99.7	$ 97.3

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

	2011	2010
Fair value of plan assets at beginning of year	$ 77.4	$ 71.3
Actual (loss)/gain on plan assets	(2.7)	7.4
Employer contribution	16.2	3.0
Plan participants contributions	1.5	1.7
Benefits paid and other disbursements	(1.6)	(1.4)
Foreign currency exchange rate changes	(3.3)	(4.6)
Fair value of plan assets at end of year	$ 87.5	$ 77.4
Unfunded status at end of year	$ (12.2)	$ (19.9)
Unamortized net actuarial loss in accumulated OCI	37.0	32.8
Unamortized prior service cost in accumulated OCI	0.3	0.6
Net amount recognized	$ 25.1	$ 13.5

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

	2011	2010
Unfunded status non-current liability	$ (12.2)	$ (19.9)
Accumulated OCI	37.3	33.4

Net amount recognized	$ 25.1	$ 13.5

149

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2011	2010	2009
Service cost	$ 3.4	$ 3.2	$ 3.1
Interest cost	4.6	4.2	3.7
Expected return on plan assets	(5.0)	(4.9)	(3.5)
Amortization of net actuarial loss	1.4	1.2	1.3
Amortization of prior service cost	0.2		0.1
Net periodic pension cost	$ 4.6	$ 3.7	$ 4.7

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

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

	2011	2010
Discount rate	4.3%	4.7%
Expected return on plan assets	5.5%	6.2%
Rate of compensation increase	3.4%	3.5%

The discount rate of 4.3% at December 31, 2011, was determined by reference to yields on high-quality fixed-income investments, having regard to the duration of the plans liabilities. The average duration of both defined benefit plans is greater than 20 years. Since no significant market exists for high-quality fixed income investments in Ireland and, following the crisis in the credit markets, the number of AA-rated corporate bonds with long durations is limited, the assumed discount rate of 4.3% per annum at December 31, 2011, was determined based on a yield curve derived by reference to government bonds with an added corporate bond spread derived from the Merrill Lynch 10+ AA corporate bond index.

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

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

	2011	2010
Females	23.4	23.3
Males	21.7	21.6

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

	2011	2010
Females	24.4	24.3
Males	22.6	22.5

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2011	2010
Females	25.3	25.2
Males	23.5	23.4

At December 31, 2011, the impact of certain changes in the principal assumptions on the projected benefit obligation, service cost and net periodic pension cost is as follows (in millions):

	Increase/(decrease) in Projected Benefit Obligation	Increase/(decrease) in Service Cost	Increase/(decrease) in Net Periodic Pension Cost
Increase of 0.25% in discount rate	$ (6.8)	$ (0.1)	$ (0.6)
Decrease of 0.25% in discount rate	7.4	0.1	0.6
Increase of 0.25% in salary and inflation rates	7.0	0.1	0.9
Decrease of 0.25% in salary and inflation rates	(6.5)	(0.1)	(0.9)
Increase of one year in life expectancy	2.8		0.4
Decrease of one year in life expectancy	(2.8)		(0.4)
Increase of 0.25% in pension increase assumption	2.7		0.3
Decrease of 0.25% in pension increase assumption	(2.5)		(0.3)

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

	2011	2010
Equities	47.1%	60.2%
Bonds	18.5%	20.7%
Property	0.7%	0.9%
Cash	13.3%	0.0%
Absolute return fund	20.4%	18.2%
Total	100.0%	100.0%

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

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

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

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

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

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

As of December 31, 2011, the expected long-term rate of return on assets of 5.5% (2010: 6.2%) was calculated based on the assumptions of the following returns for each asset class:

	2011	2010
Equities	7.0%	7.3%
Property	6.0%	6.3%
Bonds	3.5%	3.8%
Cash	2.0%	2.1%
Absolute return fund	6.0%	5.5%

As of December 31, 2011, the assumed return on equities has been derived as the assumed return on bonds plus an assumed equity risk premium of 3.5% (2010: 3.5%).

As of December 31, 2011, the expected return on property has been chosen by allowing for a property risk premium of 2.5% (2010: 2.5%) above the expected return on bonds.

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

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

The following table sets forth the fair value of our pension plan assets, as of December 31, 2011 (in millions):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Equities	$ 41.2	$	$	$ 41.2
Bonds	16.2			16.2

Property			0.6	0.6
Cash	11.6			11.6
Absolute return fund	17.9			17.9
Total	$ 86.9	$	$ 0.6	$ 87.5

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth a summary of the changes in the fair value of our Level 3 pension plan assets, which were measured at fair value on a recurring basis for the year ended December 31, 2011 (in millions).

	Total
Beginning balance at January 1, 2011	$ 0.7
Unrealized loss on property assets	(0.1)
Ending balance at December 31, 2011	$ 0.6

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

The total accumulated benefit obligation for the defined benefit pension plans was $95.0 million at December 31, 2011 (2010: $82.2 million).

At December 31, 2011, the total estimated future benefit payments to be paid in respect of the plans for the period of 2012-2016 is approximately $1.6 million per annum. The total estimated future benefit payments to be paid in the period of 2017-2021 is approximately $4.1 million per annum. We expect to contribute approximately $2.7 million to our defined benefit plans in 2012.

The expected benefits to be paid are based on the same assumptions used to measure our benefit obligation at December 31, 2011, including the expected future employee service.

As of December 31, 2011, we expect to recognize $1.6 million of the unamortized net actuarial loss that is included in accumulated OCI at December 31, 2011, during 2012.

Defined Contribution Retirement Plans

We operate a number of defined contribution retirement plans. The costs of these plans are charged to the Consolidated Statement of Operations in the period they are incurred. For 2011, total expense related to the defined contribution plans was $3.6 million (2010: $4.5 million; 2009: $5.0 million).

Employee Savings and Retirement Plan 401(k)

We maintain a 401(k) retirement savings plan for our employees based in the United States. Participants in the 401(k) plan may contribute up to 80% of their annual compensation (prior to January 1, 2010, participants could contribute up to 100% of their annual compensation), limited by the maximum amount allowed by the IRC. We match 3% of each participating employee s annual compensation on a quarterly basis and may contribute additional discretionary matching up to another 3% of the employee s annual qualified compensation. Our matching contributions vest immediately. For 2011, we recorded $3.2 million (2010: $4.0 million; 2009: $4.7 million) of expense in connection with the matching contributions under the 401(k) plan.

Irish Defined Contribution Plan

We operate a defined contribution plan for employees based in Ireland who joined the Company on or after April 1, 2009. Under the plan, we contribute up to 15% of each participating employee s annual eligible income on a monthly basis. For 2011, we recorded $0.4 million (2010: $0.5 million; 2009: $0.1 million) of expense in connection with the matching contributions under the Irish defined contribution plans.

153

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Share-based Compensation

We grant equity awards from the Long Term Incentive Plan (2006 LTIP), which provides for the issuance of stock options, RSUs and other equity awards. Our equity award program is a long-term retention program that is intended to attract, retain and motivate employees, directors and consultants of Elan and our affiliates, and to align the interests of these parties with those of shareholders.

We consider our equity award program critical to our operation and productivity. Equity awards are settled through the issuance of new shares.

In May 2008, our shareholders approved an amendment to the 2006 LTIP that provided for an additional 18,000,000 shares to be made available for issuance under the 2006 LTIP. As of December 31, 2011, there were 6,082,810 shares available for issuance under the 2006 LTIP (2010: 11,662,210 shares).

Stock Options

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

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

	2011	2010
1996 Plan	3,663	4,231
1998 Plan	123	472
1999 Plan	3,364	4,073
2006 LTIP	12,301	9,432
Total	19,451	18,208

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

	No. of Options (In thousands)	WAEP[(1)]	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In millions)
Outstanding at December 31, 2009	18,227	$ 15.57		
Exercised	(163)	2.54		
Granted	2,422	6.74		
Forfeited	(440)	9.28		
Expired	(1,838)	30.71		
Outstanding at December 31, 2010	18,208	$ 13.14		
Exercised	(713)	6.22		
Granted	4,241	7.62		
Forfeited	(489)	8.84		

Expired	(1,796)	32.01		
Outstanding at December 31, 2011	19,451	$ 10.55	5.7	$ 87.2
Vested and expected to vest at December 31, 2011	18,821	$ 10.66	5.6	$ 83.2
Exercisable at December 31, 2011	13,891	$ 11.51	4.4	$ 53.7

(1) *Weighted-average exercise price*

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between our closing stock price on the last trading day of 2011 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2011. This amount changes based on the fair market value of our stock. The total intrinsic value of options exercised in 2011 was $2.9 million (2010: $0.7 million; 2009: $1.6 million). The total fair value expensed over the vesting terms of options that vested in 2011 was $21.6 million (2010: $13.4 million; 2009: $20.0 million).

At December 31, 2011, the range of exercise prices and weighted-average remaining contractual life of outstanding and exercisable options were as follows:

	Options Outstanding			Options Exercisable		
	Options Outstanding (In thousands)	Weighted-Average Remaining Contractual Life (In years)	WAEP	Options Outstanding (In thousands)	Weighted-Average Remaining Contractual Life (In years)	WAEP
$1.93-$10.00	11,907	6.4	$ 6.65	6,791	4.6	$ 6.17
$10.01-$25.00	6,094	4.4	14.47	5,845	4.2	14.59
$25.01-$35.80	1,450	5.1	26.12	1,255	4.9	26.10
$1.93-$35.80	19,451	5.7	$ 10.55	13,891	4.4	$ 11.51

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

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

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

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

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

155

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The estimated weighted-average grant date fair values of the individual options granted during the years ended December 31, 2011, 2010 and 2009 were $3.53, $3.73 and $5.27, respectively. The fair value of options granted during these years was estimated using the binomial option-pricing model with the following weighted-average assumptions:

	2011	2010	2009
Risk-free interest rate	1.56%	2.04%	1.55%
Expected volatility	52.4%	65.4%	92.0%
Expected dividend yield			
Expected life [(1)]			

(1) *The expected lives of options granted in 2011, as derived from the output of the binomial model, ranged from 4.8 years to 7.5 years (2010: 4.8 years to 7.5 years; 2009: 4.5 years to 7.3 years). The contractual life of the options, which is not later than 10 years from the date of grant, is used as an input into the binomial model.*

Restricted Stock Units

RSUs generally vest between one and three years from the grant date, and shares are issued to RSU holders as soon as practicable following vesting. The fair value of services received in return for the RSUs is measured by reference to the fair value of the underlying shares at grant date, for directors and employees, and as services are rendered for non-employees. The total fair value expensed over the vesting terms of RSUs that vested in 2011 was $28.8 million (2010: $10.8 million; 2009: $15.6 million).

The non-vested RSUs are summarized as follows:

	No. of RSUs (In thousands)	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2009	3,020	$ 14.06
Granted	2,957	6.87
Vested	(781)	17.81
Forfeited	(554)	9.65
Non-vested at December 31, 2010	4,642	$ 9.38
Granted	3,312	6.82
Vested	(3,052)	9.47
Forfeited	(1,000)	7.45
Non-vested at December 31, 2011	3,902	$ 7.63

Employee Equity Purchase Plan

We operate an EEPP for eligible employees based in the United States and, from January 1, 2012 for eligible employees based in Ireland. The EEPP for U.S. based employees is a qualified plan under Sections 421 and 423 of the IRC. The EEPP allows eligible employees to purchase shares at 85% of the lower of the fair market value at the beginning of the offering period or the fair market value on the last trading day of the offering period. Purchases are limited to $25,000 (fair market value) per calendar year; 2,000 shares per six-month offering period (changed from 1,000 shares per three-month offering period, beginning January 1, 2010); and, for U.S. based employees, subject to certain IRC restrictions.

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In total, 3,000,000 shares have been made available for issuance under the EEPP. In 2011, 237,631 shares (2010: 470,412 shares; 2009: 528,411 shares) were issued under the EEPP. As of December 31, 2011, 143,761 shares (2010: 381,392 shares) were available for future issuance under the EEPP.

The weighted-average fair value of options granted under the EEPP during the 12 months ended December 31, 2011 was $2.30 (2010: $1.84; 2009: $2.07). The estimated fair values of these options were charged to expense over the respective six-month offering periods. The estimated fair values of options granted under the EEPP in the years ended December 31, were calculated using the following inputs into the Black-Scholes option-pricing model:

	2011	2010	2009
Weighted-average share price	$ 8.00	$ 5.61	$ 6.57
Weighted-average exercise price	$ 6.80	$ 4.77	$ 5.58
Expected volatility[1]	49.7%	63.9%	84.6%
Expected life	6 months	6 months	3 months
Expected dividend yield			
Risk-free interest rate	0.16%	0.21%	0.15%

(1) *The expected volatility was determined based on the implied volatility of traded options on our stock.*

Share-based Compensation Expense

As part of the transaction on September 17, 2009, under which Janssen AI acquired substantially all of our assets and rights related to the AIP and we received a 49.9% equity interest in Janssen AI, a number of Elan employees transferred employment to Janssen AI. The outstanding equity awards held by the transferred employees as of September 17, 2009, were modified such that the transfer would not trigger the termination provisions of the awards. The impact of the modification for all applicable outstanding awards amounted to a net credit of $1.2 million, which was included in the net gain on the divestment of business in the 2009 Consolidated Statement of Operations. The net credit was primarily due to the change in status of the award holders from employees to non-employees and the resulting change in measurement date.

In addition, as part of the transaction described above, we continue to grant annual equity and equity-based compensation awards under the 2006 LTIP (and any successor or replacement or additional plan) to each transferred employee. Beginning in 2010, these awards are granted at the same time as such awards are granted to Elan employees; on terms and conditions, including vesting, that are no less favorable than those granted to similarly situated Elan employees; and with a grant date fair value that is equal to similarly situated Elan employees who received the same performance rating from Elan as the transferred employees received from Janssen AI. The total amount of expense in 2011 relating to equity-settled share-based awards held by former Elan employees that transferred to Janssen AI was $2.4 million (2010: $0.4 million; 2009: less than $0.1 million). This expense has been recognized in the R&D expense line item in the Consolidated Statement of Operations.

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	2011	2010	2009
Cost of sales	$ 1.1	$ 1.6	$ 2.2
Selling, general and administrative expenses	16.6	17.4	17.0
Research and development expenses	14.9	11.5	11.8
Other net charges	1.1	1.0	1.7
Net gain/(loss) on divestment of business	1.6		(1.2)
Total	$ 35.3	$ 31.5	$ 31.5

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

	2011	2010	2009
Stock options	$ 14.0	$ 13.4	$ 16.8
RSUs	20.7	17.2	13.6
EEPP	0.6	0.9	1.1
Total	$ 35.3	$ 31.5	$ 31.5

The total equity-settled share-based compensation expense related to unvested awards not yet recognized, adjusted for estimated forfeitures, is $13.3 million at December 31, 2011. This expense is expected to be recognized over a weighted-average of 1.2 years.

27. Fair Value Measurements

Assets Measured at Fair Value on a Recurring Basis

As of December 31, 2011, we did not hold any financial liabilities that are recognized at fair value in the financial statements on a recurring or non-recurring basis. The following tables set forth the fair value of our financial assets measured at fair value on a recurring basis, as of December 31, of each year (in millions):

2011	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	$ 271.7	$	$	$ 271.7
Restricted cash and cash equivalents current	2.6			2.6
Restricted cash and cash equivalents non-current	13.7			13.7
Available-for-sale equity securities current	0.3			0.3
Total	$ 288.3	$	$	$ 288.3

158

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2010	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	$ 422.5	$	$	$ 422.5
Restricted cash current	208.2			208.2
Restricted cash non-current	14.9			14.9
Available-for-sale equity securities current	2.0			2.0
Available-for-sale debt securities non-current			0.2	0.2
Total	$ 647.6	$	$ 0.2	$ 647.8

As of December 31, 2011, the fair value of our Level 1 assets was $288.3 million (2010: $647.6 million), primarily consisting of bank deposits, holdings in U.S. Treasuries funds, restricted cash, and marketable equity securities in emerging pharmaceutical and biotechnology companies. Included in this amount were net unrealized gains of $Nil (2010: $1.6 million) related to marketable equity securities.

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

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

2010	Auction Rate Securities	Warrants	Total
Beginning balance at January 1, 2010	$ 0.4	$ 0.4	$ 0.8
Realized gains included in net investment gains		1.2	1.2
Unrealized losses included in other comprehensive income	(0.2)		(0.2)
Redemptions		(1.6)	(1.6)
Ending balance at December 31, 2010	$ 0.2	$	$ 0.2

As of December 31, 2011, we held $Nil (2010: $0.2 million) investments, which were measured using unobservable (Level 3) inputs. At December 31, 2010, our investments, which were measured using unobservable (Level 3) inputs, consisted entirely of investments in ARS.

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

159

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets Measured at Fair Value on a Non-recurring Basis

We measure certain assets, including equity investments in privately held companies, at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. We did not recognize any impairment charges relating to these assets during 2011 (2010: $Nil).

Debt Instruments

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

	2011		2010	
	Principal Amount	Fair Value	Principal Amount	Fair Value
2016 Notes issued October 2009	$ 472.1	$ 503.4	$ 625.0	$ 624.2
2016 Notes issued August 2010	152.4	161.7	200.0	193.4
2013 Fixed Rate Notes			449.5	458.5
2013 Floating Rate Notes			10.5	10.5
Total debt instruments	$ 624.5	$ 665.1	$ 1,285.0	$ 1,286.6

Refer to Note 22 for a reconciliation of the aggregate principal amount of the debt to the carrying amount.

28. Leases

Operating Leases

We lease certain of our facilities under non-cancelable operating lease agreements that expire at various dates through 2025. The major components of our operating leases that were in effect at December 31, 2011 are as described below.

In August 1998, we entered into an agreement for the lease of four buildings located in South San Francisco, California. These buildings are utilized for R&D, administration and other corporate functions. The leases expire between December 2012 and December 2014. Thereafter, we have an option to renew for two additional five-year periods.

In June 2007, we entered into a lease agreement for a building in South San Francisco, California. The lease term for this building commenced in March 2009, and the building is utilized for R&D, sales and administrative functions. The lease term is 15 years, with an option to renew for one additional five-year period.

In December 2007, we entered into a lease agreement for a building in South San Francisco, California. The lease term commenced in January 2010, and the building is utilized for R&D, sales and administrative functions. The lease term is 15 years, with an option to renew for one additional five-year period.

In September 2004, we entered into a lease agreement for our corporate headquarters located in the Treasury Building, Dublin, Ireland. This lease expires in July 2014, with an option to renew for two additional 10-year periods. In April 2008, we entered into another lease agreement for additional space at the Treasury Building. This lease expires in July 2014, with an option to renew for two additional 10-year periods.

We closed the New York office in March 2009. The lease period expires in February 2015. The future rental commitments relating to this lease are included in the table below.

In September 2009, we entered into sub-leasing agreements with Janssen AI for laboratory and office space in South San Francisco which was no longer being utilized by our R&D, sales and administrative functions. In

160

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

May 2010, we amended one of the agreements with Janssen AI, and added additional space in South San Francisco. One of the agreements expired in December 2011, with the remaining agreements due to expire between December 2012 and November 2014.

In January 2010, we entered into a subleasing agreement with Janssen AI for office space at the Treasury Building, Dublin, Ireland. The lease period will expire in June 2014.

In March 2010, we entered into a lease agreement for another building in South San Francisco, California with a commencement date in November 2010. The building is being utilized by our Neotope R&D function. The lease term is 10 years.

In December 2011, we closed the facility located in King of Prussia, Pennsylvania. The two leases expire between April 2019 and May 2020. The future rental commitments relating to the leases are included in the table below. Approximately 25,000 square feet of this space was sublet in February 2012.

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

We recorded expense under operating leases of $23.8 million in 2011 (2010: $27.9 million; 2009: $23.8 million). We recorded income under our operating subleasing agreement of $2.8 million in 2011 (2010: $2.3 million; 2009: $0.6 million).

As of December 31, 2011, our future minimum rental commitments for operating leases with non-cancelable terms in excess of one year are as follows (in millions):

Due in:	
2012	$ 32.4
2013	21.6
2014	20.8
2015	14.5
2016	14.8
2017 and thereafter	112.6
Total	$ 216.7[1]

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

Capital Leases

There were no capital leases in place at December 31, 2011. In 2010, the net book value of assets acquired under capital leases was $1.5 million, which included $71.8 million of accumulated depreciation. The depreciation expense related to assets under capital leases for 2011, 2010 and 2009 was $0.3 million, $1.4 million and $2.1 million, respectively.

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

161

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Commitments and Contingencies

As of December 31, 2011, the directors had authorized capital commitments for the purchase of property, plant and equipment of $3.0 million (2010: $8.0 million).

At December 31, 2011, we had commitments to invest $2.6 million (2010: $3.4 million) in healthcare managed funds.

For information on lease commitments, refer to Note 28. For litigation and administrative proceedings related to contingencies, refer to Note 30. For information on commitments in relation to our collaboration arrangements, where applicable, refer to Note 32.

30. Litigation

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

Zonegran matter

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

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

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

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

Patent matter

In June 2008, a jury ruled in the U.S. District Court for the District of Delaware that Abraxis (since acquired by Celgene Corporation) had infringed a patent owned by us in relation to the application of NanoCrystal technology (the NanoCrystal technology was transferred to Alkermes in connection with the sale of our EDT business in September 2011) to Abraxane. The judge awarded us $55 million, applying a royalty rate of 6% to sales of Abraxane from January 1, 2005 through June 13, 2008 (the date of the verdict). This award and damages associated with the continuing sales of the Abraxane product were subject to interest.

In February 2011, we entered into an agreement with Abraxis to settle this litigation. As part of the settlement agreement with Abraxis, we received $78.0 million in full and final settlement. No continuing royalties will be received by us in respect of Abraxane.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2011, we entered into an agreement with Alcon to settle litigation also in relation to the application of NanoCrystal technology in connection with Alcon s marketing of particular products. As part of the settlement agreement with Alcon, we received $6.5 million in May 2011 in full and final settlement.

Securities matters

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

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

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

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

We and some of our officers and directors were named as defendants in a securities case filed June 24, 2010 in the U.S. District Court in the Northern District of California. The complaint alleged that during the June/July 2008 timeframe we disseminated materially false and misleading statements/omissions related to *Tysabri* and bapineuzumab. Plaintiffs alleged that they lost collectively approximately $4.5 million. On October 4, 2011 the court dismissed the lawsuit with prejudice. The plaintiffs have appealed the dismissal to the U.S. Court of Appeals for the Ninth Circuit.

We and some of our officers were named as defendants in a putative class action lawsuit filed in the U.S. District Court for the Southern District of New York on February 23, 2011. The plaintiffs complaint alleged claims under U.S. federal securities laws and sought damages on behalf of all purchasers of our stock during the period between July 2, 2009 and August 5, 2009. The complaint alleged that we issued false and misleading public statements concerning the Johnson & Johnson Transaction. On November 10, 2011, the court dismissed the lawsuit with prejudice.

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Antitrust matters

In 2002 and 2003, 10 actions were filed in the U.S. District Courts (seven in the District of Columbia and three in the Southern District of New York) claiming that we (and others) violated federal and state antitrust laws based on licensing and manufacturing arrangements between Elan, Teva Pharmaceuticals Inc. and Biovail Corporation (Biovail) relating to nifedipine. The complaints sought various forms of remedy, including damages and injunctive relief. The actions were brought by putative classes of direct purchasers, individual direct purchasers, and putative classes of indirect purchasers. On May 29, 2003, the Judicial Panel for Multidistrict Litigation coordinated and consolidated for pre-trial proceedings all pending cases in the U.S. District Court for the District of Columbia. In late 2007, we entered into a settlement agreement with the indirect purchaser class resulting in a dismissal of that segment of the lawsuit. In December 2009, we entered into a separate settlement agreement with the individual opt-out direct purchasers and agreed to pay $4.6 million to this opt-out direct purchaser class resulting in a dismissal of the second segment of the litigation. In October 2010, we agreed to pay $12.5 million to settle the third and final piece of this litigation. In January 2011, the U.S. District Court for the District of Columbia approved the settlement and dismissed the case.

Tysabri product liability lawsuits

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

31. Related Parties

Janssen AI

Janssen AI, a newly formed subsidiary of Johnson & Johnson, acquired substantially all of the assets and rights related to the AIP with Wyeth (which has been acquired by Pfizer) in September 2009. In consideration for the transfer of these assets and rights, we received a 49.9% equity interest in Janssen AI which has been recorded as an equity method investment on the Consolidated Balance Sheet at December 31, 2011. For additional information relating to the AIP divestment, refer to Note 5. For additional information relating to our equity method investment, refer to Note 9.

Following the divestment of the AIP business to Janssen AI in September 2009, we provided administrative, I.T., and R&D transition services to Janssen AI, and recorded fees of $3.7 million in 2010 and $2.9 million in 2009 related to these transition services. These activities ceased in December 2010, with the exception of I.T. related services. We recorded fees of $0.3 million in 2011 related to I.T. services. We also received sublease rental income of $2.2 million in 2011 (2010: $2.3 million; 2009: $0.6 million) from Janssen AI in respect of agreements for office and laboratory space in South San Francisco and office space in Dublin. The total expense in 2011 relating to equity-settled share based awards held by former Elan employees that transferred to Janssen AI was $2.4 million (2010: $0.4 million; 2009: less than $0.1 million). At December 31, 2011, we had a balance owing to us from Janssen AI of $Nil (2010: $0.2 million).

Alkermes plc

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

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Following the divestment of the EDT business to Alkermes plc, we provided administrative and I.T. transition services to Alkermes plc, and recorded fees of $1.1 million in 2011 related to these transition services. At December 31, 2011, we had a balance owing to us from Alkermes plc of $1.9 million; which includes an amount of $1.2 million owed to us in respect of the EDT divestment transaction working capital adjustment.

Transactions with Directors

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

Non-Executive Directors Terms of Appointment

Period	Three-year term which can be extended by mutual consent, contingent on satisfactory performance and re-election at the Annual General Meeting (AGM).	
Termination	By the director or the Company at each party s discretion without compensation.	
Fees	Board Membership Fees	
	Chairman s Fee	$ 150,000(1)
	Director s Fee	$ 55,000(2)
	Additional Board/Committee Fees	
	Lead Independent Director s Fee	$ 20,000
	Audit Committee Chairman s Fee	$ 25,000(3)
	Audit Committee Member s Fee	$ 15,000
	Other Committee Chairman s Fee	$ 20,000(3)
	Other Committee Member s Fee	$ 12,500
Equity	Non-executive directors are entitled to be considered for an annual equity award, based on the recommendation of the Leadership, Development and Compensation Committee (LDCC) and supported by the advice of the LDCC s compensation consultants. Such equity awards are normally granted in February of each year and are currently made in the form of RSUs. The awards made in February 2012 had the following grant date fair values:	
	Chairman	$ 400,000(1)
	Other non-executive directors	$ 200,000(2)
Expenses	Reimbursement of travel and other expenses reasonably incurred in the performance of their duties.	
Time commitment	Five scheduled in-person board meetings, the AGM and relevant committee meetings depending upon board/committee requirements and general corporate activity. Non-executive board members are also expected to be available for a number of unscheduled board and committee meetings, where applicable, as well as to devote appropriate preparation time ahead of each meeting.	
Confidentiality	Information acquired by each director in carrying out their duties is deemed confidential and cannot be publicly released without prior clearance from the chairman of the board.	

(1) *The chairman s compensation for 2012 consists of a fee of $150,000 (2011: $250,000) and RSUs with a grant date fair value of $400,000 (2011: $200,000), amounting to a total value of $550,000 in 2012 (2011:$450,000). The chairman does not receive additional compensation for sitting on board committees.*

(2) *Non-executive directors can elect to receive their fee payments in the form of RSUs, which will vest on the earlier of 90 days after their retirement from the Board or 10 years. In 2011, Dr. Ekman, Mr. McGowan and Mr. McLaughlin elected to receive their fee payments in the form of RSUs.*

(3) *Inclusive of committee membership fee.*

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dr. Ekman

Effective December 31, 2007, Dr. Lars Ekman resigned from his operational role as president of R&D and has continued to serve as a member of the board of directors of Elan.

Under the agreement reached with Dr. Ekman, we agreed by reference to Dr. Ekman s contractual entitlements and in accordance with our severance plan to (a) make a lump-sum payment of $2,500,000; (b) make milestone payments to Dr. Ekman, subject to a maximum amount of $1,000,000, if we achieve certain milestones in respect of our Alzheimer s disease program; (c) accelerate the vesting of, and grant a two-year exercise period, in respect of certain of his equity awards, with a cash payment being made in respect of one grant of RSUs (which did not permit accelerated vesting); and (d) continue to make annual pension payments in the amount of $60,000 per annum, provide the cost of continued health coverage and provide career transition services to Dr. Ekman for a period of up to two years. A total severance charge of $3.6 million was expensed in 2007 for Dr. Ekman, excluding potential future success milestone payments related to our Alzheimer s disease program. To date, none of the milestones has been triggered, and they remain in effect.

Mr. Martin

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

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

On June 2, 2010, Elan and Mr. Martin agreed to amend his 2005 employment contract from an open-ended agreement to a fixed term agreement. Under this 2010 agreement, Mr. Martin committed to remain in his current roles as CEO and director of the Company through to May 1, 2012. It was agreed that upon the completion of this fixed term Mr. Martin will then serve the board as executive adviser through to January 31, 2013. Under this amendment, Mr. Martin s base salary was increased from $800,000 to $1,000,000 per year effective June 1, 2010 and when Mr. Martin moves to the role of executive adviser, his base salary will be reduced to $750,000 per year, he will not be eligible for a bonus and he will resign from the board.

The agreement, as amended, continues until Mr. Martin resigns, is involuntarily terminated, is terminated for cause or dies, or is disabled. In general, if Mr. Martin s employment is involuntarily terminated (other than for cause, death or disability) or Mr. Martin leaves for good reason, we will pay Mr. Martin a lump sum equal to two (three, in the event of a change in control) times his salary and target bonus and his options will be exercisable until the earlier of (i) January 31, 2015 or (ii) tenth anniversary of the date of grant. In the event of a change in control, his options will be exercisable until the earlier of (i) three years from the date of termination, or January 31, 2015, whichever is later or (ii) the tenth anniversary of the date of grant of the stock option.

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

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

No other director has an employment contract extending beyond 12 months or pre-determined compensation on termination which exceeds one year s salary.

Mr. McLaughlin

In 2011 and 2010, Davy, an Irish based stockbroking, wealth management and financial advisory firm, of which Mr. McLaughlin is deputy chairman, provided advisory services to the company. The total invoiced value of these services in 2011 was $0.2 million (2010: $0.3 million). Services rendered in 2011 included work in relation to the EDT divestment.

In November 2011, the Company engaged an adult son of Kyran McLaughlin as a consultant in relation to the Company s investor relations programmes for a six month period. The amount invoiced for these services in 2011 was 11,800. Mr. McLaughlin s son is not an executive officer and does not have a key strategic role within Elan.

Mr. Pilnik

In 2009, prior to his joining the board of directors of Elan, Mr. Pilnik was paid a fee of $15,230 for consultancy services provided to Elan.

Dr. Selkoe

Effective as of July 1, 2009, EPI entered into a consultancy agreement with Dr. Selkoe under which Dr. Selkoe agreed to provide consultant services with respect to the treatment and/or prevention of neurodegenerative and autoimmune diseases. We pay Dr. Selkoe a fee of $12,500 per quarter under this agreement. The agreement is effective for three years unless terminated by either party upon 30 days written notice and supersedes all prior consulting agreements between Dr. Selkoe and Elan. Previously, Dr. Selkoe was a party to a similar consultancy agreement with EPI and Athena. Under the consultancy agreements, Dr. Selkoe received $50,000 in 2011, 2010 and 2009.

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

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Arrangements with Former Directors

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

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

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

Dr. Bloom

On July 17, 2009, EPI entered into a consultancy agreement with Dr. Bloom under which Dr. Bloom agreed to provide consultant services to Elan with respect to the treatment and/or prevention of neurodegenerative diseases and to act as an advisor to the science and technology committee. Effective July 17, 2011, this agreement was extended for a further year (the Amended Agreement) and we pay Dr. Bloom a fee of $12,500 per quarter under the Amended Agreement. This agreement can be terminated by either party upon 30 days written notice. Under the consultancy agreements, Dr. Bloom received $44,674 in 2011 (2010: $58,125, of which $18,152 related to services rendered during 2009).

Mr. Cooke

In connection with the EDT transaction, as described in Note 5, and Mr. Cooke s transfer of employment from the Company to Alkermes plc, the Company and Mr. Cooke agreed on September 16, 2011, that if his employment with Alkermes plc is terminated otherwise than for disciplinary reasons, and the date of expiry of notice of his termination of employment is not later than August 15, 2012, we will make up the shortfall, if any, between the severance amount payable to him by Alkermes plc, and the amount that he would have received under our current Elan severance plan had his employment continued and been terminated by us.

External Appointments and Retention of Fees

Executive directors may accept external appointments as non-executive directors of other companies and retain any related fees paid to them.

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Development and Marketing Collaboration Agreements

Biogen Idec

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

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

In June 2006, the FDA approved the reintroduction of *Tysabri* for the treatment of relapsing forms of MS. Approval for the marketing of *Tysabri* in the European Union was also received in June 2006 and has subsequently been received in a number of other countries. The distribution of *Tysabri* in both the United States and the European Union commenced in July 2006. Global in-market net sales of *Tysabri* in 2011 were $1,510.6 million (2010: $1,230.0 million; 2009: $1,059.2 million), consisting of $746.5 million (2010: $593.2 million; 2009: $508.5 million) in the U.S. market and $764.1 million (2010: $636.8 million; 2009: $550.7 million) in the ROW.

In January 2008, the FDA approved the supplemental Biologics License Application (sBLA) for *Tysabri* for the treatment of patients with Crohn s disease, and *Tysabri* was launched in this indication at the end of the first quarter of 2008. In December 2008, we announced a realignment of our commercial activities in *Tysabri* for Crohn s disease, shifting our efforts from a traditional sales model to a model based on clinical support and education.

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 development and commercialization costs. Biogen Idec is responsible for manufacturing the product. In the United States, we purchase *Tysabri* from Biogen Idec and are responsible for distribution. Consequently, we record as revenue the net sales of *Tysabri* in the U.S. market. We purchase product from Biogen Idec as required at a price, which includes the cost of manufacturing, plus Biogen Idec s gross profit on *Tysabri* and this cost, together with royalties payable to other third parties, is included in cost of sales.

In the ROW markets, Biogen Idec is responsible for distribution and we record as revenue our share of the profit or loss on ROW sales of *Tysabri*, plus our directly incurred expenses on these sales. In 2011, we recorded revenue of $317.6 million (2010: $258.3 million; 2009: $215.8 million).

As a result of the strong growth in *Tysabri* sales, in July 2008, we made an optional payment of $75.0 million to Biogen Idec in order to maintain our approximate 50% share of *Tysabri* for annual global in-market net sales of *Tysabri* that are in excess of $700.0 million. In addition, in December 2008, we exercised our option to pay a further $50.0 million milestone to Biogen Idec in order to maintain our percentage share of *Tysabri* at approximately 50% for annual global in-market net sales of *Tysabri* that are in excess of $1.1 billion. There are no further milestone payments required for us to retain our approximate 50% profit share.

The collaboration agreement will expire in November 2019, but may be extended by mutual agreement of the parties. If the agreement is not extended, then each of Biogen Idec and Elan has the option to buy the other party s rights to *Tysabri* upon expiration of the term. Each party has a similar option to buy the other party s rights to *Tysabri* if the other party undergoes a change of control (as defined in the collaboration agreement). In addition, each of Biogen Idec and Elan can terminate the agreement for convenience or material breach by the other party, in which case, among other things, certain licenses, regulatory approvals and other rights related to

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the manufacture, sale and development of *Tysabri* are required to be transferred to the party that is not terminating for convenience or is not in material breach of the agreement.

For additional information relating to *Tysabri*, refer to Note 3.

Johnson & Johnson AIP Agreements

On September 17, 2009, Janssen AI, a newly formed subsidiary of Johnson & Johnson, completed the acquisition of substantially all of our assets and rights related to the AIP. In addition, Johnson & Johnson, through its affiliate Janssen Pharmaceutical, invested $885.0 million in exchange for newly issued American Depositary Receipts (ADRs) of Elan, representing 18.4% of our outstanding Ordinary Shares at the time. Johnson & Johnson also committed to fund up to $500.0 million towards the further development and commercialization of the AIP. As of December 31, 2011, the remaining unspent amount of the Johnson & Johnson $500.0 million funding commitment was $57.6 million (2010: $272.0 million), which reflects the $214.4 million utilized in 2011 (2010: $179.0 million). Any required additional expenditures in respect of Janssen AI s obligations under the AIP collaboration in excess of the initial $500.0 million funding commitment is required to be funded by Elan and Johnson & Johnson in proportion to their respective shareholdings up to a maximum additional commitment of $400.0 million in total. Based on current spend levels, we anticipate that we will be called upon to provide funding to Janssen AI commencing in the second quarter of 2012. In the event that further funding is required beyond the $400.0 million, such funding will be on terms determined by the board of Janssen AI, with Johnson & Johnson and Elan having a right of first offer to provide additional funding. If we fail to provide our share of the $400.0 million commitment or any additional funding that is required for the development of the AIP, and if Johnson & Johnson elects to fund such an amount, our interest in Janssen AI could, at the option of Johnson & Johnson, be commensurately reduced.

In consideration for the transfer of these assets and rights, we received a 49.9% equity interest in Janssen AI. In general, Elan is entitled to a 49.9% share of all net profits generated by Janssen AI beginning from the date Janssen AI becomes net profitable and certain royalty payments upon the commercialization of products under the AIP collaboration. The AIP represented our interest in that collaboration to research, develop and commercialize products for the treatment and/or prevention of neurodegenerative conditions, including Alzheimer s disease. Janssen AI has assumed our activities with Pfizer under the AIP. Under the terms of the Johnson & Johnson Transaction, if we undergo a change of control, an affiliate of Johnson & Johnson will be entitled to purchase our 49.9% interest in Janssen AI at the then fair value.

Transition Therapeutics Collaboration Agreements

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

170

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

As a consequence of Transition s decision to exercise its opt-out right, it will no longer fund the development or commercialization of ELND005 and has relinquished its 30% ownership of ELND005 to us. Consistent with the terms of the original agreement, following its opt-out decision, Transition will be entitled to receive milestone payments of up to $93.0 million (in addition to the $11.0 million described above), along with tiered royalty payments ranging in percentage from a high single digit to the mid teens (subject to offsets) based on net sales of ELND005 should the drug receive the necessary regulatory approvals for commercialization.

The term of the Collaboration Agreement runs until we are no longer developing or commercializing ELND005. We may terminate the Collaboration Agreement upon not less than 90 days notice to Transition and either party may terminate the Collaboration Agreement for material breach or because of insolvency of the other party. In addition, if we have not initiated a new ELND005 clinical trial by December 31, 2012, or otherwise paid Transition $11.0 million by January 31, 2013, the Collaboration Agreement will terminate.

We are continuing to explore pathways forward for the ELND005 asset.

33. Supplemental Guarantor Information

As part of the offering and sale of the 2016 Notes issued October 2009 and the 2016 Notes issued August 2010, Elan Corporation, plc and certain of its subsidiaries have guaranteed these notes.

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

- there is a legal defeasance of the Notes;
- there is a sale or other disposition of the shares or assets of the subsidiary if, after such sale or disposition, the subsidiary is no longer restricted for debt covenant purposes; or
- the subsidiary is designated as unrestricted for debt covenant purposes;

provided that any transaction is carried out in accordance with the provisions of the indentures governing the Notes.

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Presented below is condensed consolidating information for Elan Finance plc, the issuer of the debt, Elan Corporation, plc, the parent guarantor of the debt, the guarantor subsidiaries of Elan Corporation, plc, and the non-guarantor subsidiaries of Elan Corporation, plc. All of the subsidiary guarantors are wholly owned subsidiaries of Elan Corporation, plc.

Condensed Consolidating Statements of Operations

For the Year Ended December 31, 2011

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Adjustments	Consolidated
			(In millions)			
Revenue	$	$	$ 2,083.4	$	$ (837.4)	$ 1,246.0
Cost of sales			1,277.8		(638.1)	639.7
Gross margin			805.6		(199.3)	606.3
Operating expenses:						
Selling, general and administrative expenses		43.5	235.3	5.1	(55.2)	228.7
Research and development expenses			352.6	22.8	(142.9)	232.5
Net gain on divestment of businesses			(585.9)	(67.0)		(652.9)
Other net (gains)/charges			(41.0)		(1.2)	(42.2)
Total operating expenses		43.5	(39.0)	(39.1)	(199.3)	(233.9)
Operating income/(loss)		(43.5)	844.6	39.1		840.2
Share of net gains/(losses) of subsidiaries		604.0			(604.0)	
Net interest and investment (gains)/losses	0.1		243.0	(11.0)		232.1
Income/(loss) before provision for income taxes	(0.1)	560.5	601.6	50.1	(604.0)	608.1
Provision/(benefit from) for income taxes	(0.1)		47.7			47.6
Net income/(loss)	$	$ 560.5	$ 553.9	$ 50.1	$ (604.0)	$ 560.5

172

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statements of Operations

For the Year Ended December 31, 2010

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Adjustments	Consolidated
			(In millions)			
Revenue	$	$	$ 1,891.8	$	$ (722.1)	$ 1,169.7
Cost of sales			1,071.6		(488.3)	583.3
Gross margin			820.2		(233.8)	586.4
Operating expenses:						
Selling, general and administrative expenses		62.8	239.8	5.2	(53.1)	254.7
Research and development expenses			429.8	9.1	(180.2)	258.7
Settlement reserve charge			206.3			206.3
Net gain on divestment of businesses			(1.0)			(1.0)
Other net charges		0.9	56.4	(0.5)	(0.5)	56.3
Total operating expenses		63.7	931.3	13.8	(233.8)	775.0
Operating income/(loss)		(63.7)	(111.1)	(13.8)		(188.6)
Share of net gains/(losses) of subsidiaries		(261.0)			261.0	
Net interest and investment (gains)/losses	(1.2)		141.0	(5.8)		134.0
Income/(loss) before provision for income taxes	1.2	(324.7)	(252.1)	(8.0)	261.0	(322.6)
Provision for income taxes	0.3		1.8			2.1
Net income/(loss)	$ 0.9	$ (324.7)	$ (253.9)	$ (8.0)	$ 261.0	$ (324.7)

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statements of Operations

For the Year Ended December 31, 2009

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Adjustments	Consolidated
			(In millions)			
Revenue	$	$ 0.8	$ 1,932.1	$ 0.5	$ (820.4)	$ 1,113.0
Cost of sales			993.9		(433.2)	560.7
Gross margin		0.8	938.2	0.5	(387.2)	552.3
Operating expenses:						
Selling, general and administrative expenses		57.0	286.4		(75.2)	268.2
Research and development expenses			595.7	0.2	(302.3)	293.6
Net gain on divestment of businesses			(108.7)			(108.7)
Other net charges			67.0	0.3		67.3
Total operating expenses		57.0	840.4	0.5	(377.5)	520.4
Operating income/(loss)		(56.2)	97.8		(9.7)	31.9
Share of net gains/(losses) of subsidiaries		(120.1)			120.1	
Net interest and investment (gains)/losses	(1.6)	(0.1)	183.7	(0.2)	(20.1)	161.7
Income/(loss) before provision for/(benefit from) income taxes	1.6	(176.2)	(85.9)	0.2	130.5	(129.8)
Provision for/(benefit from) income taxes	0.4		46.0			46.4
Net income/(loss)	$ 1.2	$ (176.2)	$ (131.9)	$ 0.2	$ 130.5	$ (176.2)

174

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Balance Sheets

For the Year Ended December 31, 2011

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Adjustments	Consolidated
			(In millions)			
ASSETS						
Current Assets:						
Cash and cash equivalents	$ 1.8	$ 0.8	$ 265.7	$ 3.4	$	$ 271.7
Restricted cash current			2.6			2.6
Accounts receivable, net			167.7			167.7
Investment securities current			0.3			0.3
Inventory			42.2		(18.4)	23.8
Intercompany receivables	22.8	2,964.0	3,646.3	140.3	(6,773.4)	
Deferred tax assets current	0.1		26.1			26.2
Prepaid and other current assets			25.7			25.7
Total current assets	24.7	2,964.8	4,176.6	143.7	(6,791.8)	518.0
Property, plant and equipment, net			83.2			83.2
Goodwill and other intangible assets, net			107.0		202.9	309.9
Equity method investment			130.6	545.2		675.8
Investment securities non-current			9.8			9.8
Investments in subsidiaries			12,545.6		(12,545.6)	
Restricted cash non-current			13.7			13.7
Intercompany receivables	588.4		7,021.6	1.1	(7,611.1)	
Deferred tax assets non-current	0.6		123.5		(5.2)	118.9
Other assets	11.1		13.3		0.1	24.5
Total assets	$ 624.8	$ 2,964.8	$ 24,224.9	$ 690.0	$ (26,750.7)	$ 1,753.8
LIABILITIES AND SHAREHOLDERS EQUITY/(DEFICIT)						
Current Liabilities:						
Accounts payable	$	$	$ 46.4	$	$	$ 46.4
Accrued and other current liabilities	11.4	0.1	210.6		7.8	229.9
Intercompany payables	0.2	1,975.4	5,446.6	261.8	(7,684.0)	
Total current liabilities	11.6	1,975.5	5,703.6	261.8	(7,676.2)	276.3
Long term debts	615.0					615.0
Intercompany payables		175.3	11,614.9		(11,790.2)	
Other liabilities		12.2	53.7		(5.2)	60.7
Total liabilities	626.6	2,163.0	17,372.2	261.8	(19,471.6)	952.0
Shareholders equity/(deficit)	(1.8)	801.8	6,852.7	686.1	(7,537.0)	801.8

Total liabilities and shareholders equity/(deficit)	$ 624.8	$ 2,964.8	$ 24,224.9	$ 947.9	$ (27,008.6)	$ 1,753.8

175

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Balance Sheets

For the Year Ended December 31, 2010

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Adjustments	Consolidated
			(In millions)			
ASSETS						
Current Assets:						
Cash and cash equivalents	$ 1.7	$ 0.3	$ 279.4	$ 141.1	$	$ 422.5
Restricted cash current			208.2			208.2
Accounts receivable, net			191.6			191.6
Investment securities current			2.0			2.0
Inventory			56.6		(17.6)	39.0
Intercompany receivables	16.3	2,432.1	4,088.0	79.1	(6,615.5)	
Deferred tax assets current	0.2		41.6			41.8
Prepaid and other current assets			15.4			15.4
Total current assets	18.2	2,432.4	4,882.8	220.2	(6,633.1)	920.5
Property, plant and equipment, net			287.5			287.5
Goodwill and other intangible assets, net			123.9		252.6	376.5
Equity method investment			209.0			209.0
Investment securities non-current			9.4			9.4
Investments in subsidiaries			12,306.7	1.8	(12,308.5)	
Restricted cash non-current			14.9			14.9
Intercompany receivables	1,247.0	8.1	7,118.3	186.1	(8,559.5)	
Deferred tax assets non-current	0.4		153.9			154.3
Other assets	21.3		24.1			45.4
Total assets	$ 1,286.9	$ 2,440.5	$ 25,130.5	$ 408.1	$ (27,248.5)	$ 2,017.5
LIABILITIES AND SHAREHOLDERS EQUITY/(DEFICIT)						
Current Liabilities:						
Accounts payable	$	$	$ 39.2	$	$	$ 39.2
Accrued and other current liabilities	18.3	4.8	416.9	(0.4)	2.9	442.5
Intercompany payables		2,088.0	5,693.1	12.5	(7,793.6)	
Total current liabilities	18.3	2,092.8	6,149.2	12.1	(7,790.7)	481.7
Long term debts	1,270.4					1,270.4
Intercompany payables		133.5	12,628.5	4.4	(12,766.4)	
Other liabilities		19.9	55.8		(4.6)	71.1
Total liabilities	1,288.7	2,246.2	18,833.5	16.5	(20,561.7)	1,823.2
Shareholders equity/(deficit)	(1.8)	194.3	6,297.0	391.6	(6,686.8)	194.3
Total liabilities and shareholders equity/(deficit)	$ 1,286.9	$ 2,440.5	$ 25,130.5	$ 408.1	$ (27,248.5)	$ 2,017.5

176

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statements of Cash Flows

For the Year Ended December 31, 2011

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

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statements of Cash Flows

For the Year Ended December 31, 2010

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Adjustments	Consolidated
			(In millions)			
Cash flows from operating activities:						
Net cash provided by/(used in) operating activities	$ 259.8	$ (5.0)	$ (176.2)	$ (10.4)	$	$ 68.2
Cash flows from investing activities:						
Decrease in restricted cash			(191.4)			(191.4)
Proceeds from disposal of property, plant and equipment			0.1			0.1
Purchase of property, plant and equipment			(40.9)			(40.9)
Purchase of intangible assets			(3.6)			(3.6)
Purchase of non-current investment securities			(0.9)			(0.9)
Sale of non-current investment securities			7.9			7.9
Sale of current investment securities			8.5			8.5
Proceeds from business disposals			4.3			4.3
Net cash used in investing activities			(216.0)			(216.0)
Cash flows from financing activities:						
Proceeds from employee stock issuances		1.8				1.8
Repayment of loans	(455.0)					(455.0)
Net proceeds from debt issuances	187.1					187.1
Intercompany investments/capital contributions			(0.9)	0.9		
Loans to group undertakings			251.0	(251.0)		
Repayment of government grants						
Net cash provided by/(used in) financing activities	(267.9)	1.8	250.1	(250.1)		(266.1)
Effect of exchange rate changes on cash			(0.1)			(0.1)
Net increase/(decrease) in cash and cash equivalents	(8.1)	(3.2)	(142.2)	(260.5)		(414.0)
Cash and cash equivalents at beginning of year	9.8	3.5	421.6	401.6		836.5
Cash and cash equivalents at end of year	$ 1.7	$ 0.3	$ 279.4	$ 141.1	$	$ 422.5

178

Table of Contents

Elan Corporation, plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Condensed Consolidating Statements of Cash Flows

For the Year Ended December 31, 2009

	Elan Finance plc	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination Adjustments	Consolidated
			(In millions)			
Cash flows from operating activities:						
Net cash provided by/(used in) operating activities	$ 264.4	$ (869.9)	$ 519.3	$ (0.1)	$	$ (86.3)
Cash flows from investing activities:						
Decrease in restricted cash			3.5			3.5
Proceeds from disposal of property, plant and equipment			7.3			7.3
Purchase of property, plant and equipment			(43.5)			(43.5)
Purchase of intangible assets			(52.4)			(52.4)
Purchase of non-current investment securities			(0.6)			(0.6)
Sale of current investment securities			28.9			28.9
Net cash used in investing activities			(56.8)			(56.8)
Cash flows from financing activities:						
Issue of share capital		868.0				868.0
Proceeds from employee stock issuances		4.0				4.0
Repayment of loans	(867.8)					(867.8)
Net proceeds from debt issuances	603.0					603.0
Intercompany investments/capital contributions			(399.7)	399.7		
Repayment of government grants			(5.4)			(5.4)
Excess tax benefit from share-based compensation			2.3			2.3
Net cash provided by/(used in) financing activities	(264.8)	872.0	(402.8)	399.7		604.1
Effect of exchange rate changes on cash			0.2			0.2
Net increase/(decrease) in cash and cash equivalents	(0.4)	2.1	59.9	399.6		461.2
Cash and cash equivalents at beginning of year	10.2	1.4	361.7	2.0		375.3
Cash and cash equivalents at end of year	$ 9.8	$ 3.5	$ 421.6	$ 401.6	$	$ 836.5

179

Table of Contents

Item 19. ***Exhibits.***

Exhibit Number	Description
1.1	Memorandum and Articles of Association of Elan Corporation, plc. (incorporated by reference to Exhibit 1.1 of Elan Corporation plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2010 (Securities and Exchange Commission (Commission) File No. 001-13896)).
2(b)(1)	Indenture dated as of August 17, 2010, among Elan Finance public limited company, Elan Finance Corp., Elan Corporation, plc, the Subsidiary Note Guarantors party thereto and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on December 13, 2010).
2(b)(2)	Indenture dated as of October 2, 2009, among Elan Finance public limited company, Elan Finance Corp., Elan Corporation, plc, the Subsidiary Note Guarantors party thereto and The Bank of New York, as Trustee (including Forms of Global Exchange Notes) (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on October 27, 2009).
4(a)(1)	Antegren Development and Marketing Collaboration Agreement, dated as of August 15, 2000, by and between Biogen, Inc. and Elan Pharma International Limited (incorporated by reference to Exhibit 4(a)(1) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2002 confidential treatment has been granted for portions of this exhibit).
4(a)(2)	Asset Purchase Agreement, dated as of July 2, 2009, among Janssen Pharmaceutical, Juno Neurosciences, Elan Corporation, plc and the other Parties identified therein (incorporated by reference to Exhibit 4(a)(3) of Elan Corporation, plc s Annual Report on Form 20-F for the year ended December 31, 2009).
4(a)(3)	Subscription and Transfer Agreement, dated as of July 2, 2009, among Elan Corporation, plc, Keavy Holdings plc and Janssen Pharmaceutical (incorporated by reference to Exhibit 4(a)(4) of Elan Corporation, plc s Annual Report on Form 20-F for the year ended December 31, 2009).
4(a)(4)	Letter Agreement dated September 14, 2009 among Elan Corporation, plc, Athena Neurosciences, Inc., Crimagua Limited, Elan Pharmaceuticals, Inc., Elan Pharma International Limited, Keavy Finance plc, Janssen Pharmaceutical and Janssen Alzheimer Immunotherapy (incorporated by reference to Exhibit 4(a)(5) of Elan Corporation, plc s Annual Report on Form 20-F for the year ended December 31, 2009).
4(a)(5)	Investment Agreement, dated as of September 17, 2009, between Elan Corporation, plc and Janssen Pharmaceutical (incorporated by reference to Exhibit 4(a)(6) of Elan Corporation, plc s Annual Report on Form 20-F for the year ended December 31, 2009).
4(a)(6)	Shareholders Agreement, dated as of September 17, 2009 by and among Janssen Pharmaceutical, Janssen Alzheimer Immunotherapy (Holding) Limited, Latam Properties Holdings, JNJ Irish Investments ULC, Elan Corporation, plc, Crimagua Limited, Elan Pharma International Limited and Janssen Alzheimer Immunotherapy (incorporated by reference to Exhibit 4(a)(6) of Elan Corporation, plc s Annual Report on Form 20-F for the year ended December 31, 2010).
4(a)(7)	Royalty Agreement dated as of September 17, 2009 among Janssen Alzheimer Immunotherapy, Janssen Alzheimer Immunotherapy (Holding) Limited and Elan Pharma International Limited (incorporated by reference to Exhibit 4(a)(8) of Elan Corporation, plc s Annual Report on Form 20-F for the year ended December 31, 2009).
4(a)(8)	Corporate Integrity Agreement between the Office of Inspector General of the Department of Health and Human Services and Elan Corporation, plc (incorporated by reference to Exhibit 4(a)(8) of Elan Corporation, plc s Annual Report on Form 20-F for the year ended December 31, 2010).

Table of Contents

Exhibit Number	Description
4(a)(9)	Plea Agreement, dated December 8, 2010, between the United States Attorney for the District of Massachusetts, the United States Department of Justice and Elan Pharmaceuticals, Inc. (incorporated by reference to Exhibit 10.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on February 28, 2011).
4(a)(10)	Settlement Agreement, effective December 15, 2010, among the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General of the Department of Health and Human Services, the TRICARE Management Activity, and the United States Office of Personnel Management; Elan Corporation, plc; and Lee R. Chartock, M.D. (incorporated by reference to Exhibit 10.2 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on February 28, 2011).
4(a)(11)	Business Combination Agreement And Plan Of Merger, dated as of May 9, 2011, by and among Elan Corporation, plc, Antler Science Two Limited, Elan Science Four Limited, EDT Pharma Holdings Limited, EDT US Holdco Inc., Antler Acquisition Corp. and Alkermes, Inc. (incorporated by reference to Exhibit 2.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on May 9, 2011).
4(a)(12)	Shareholder s Agreement, dated as of September 16, 2011, by and among Alkermes, plc, Elan Corporation, plc, and Elan Science Three Limited.
4(b)(1)	Lease dated as of June 1, 2007 between Chamberlin Associates 180 Oyster Point Blvd., LLC and Elan Pharmaceuticals, Inc. (incorporated by reference to Exhibit 4(b)(1) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2007).
4(b)(2)	Lease dated as of December 17, 2007 between Chamberlin Associates 200 Oyster Point, L.P. and Elan Pharmaceuticals, Inc. (incorporated by reference to Exhibit 4(b)(2) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2007).
4(c)(1)	Elan Corporation, plc 1999 Stock Option Plan (2001 Amendment) (incorporated by reference to Exhibit 4(c)(1) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2001).
4(c)(2)	Elan Corporation, plc 1998 Long-Term Incentive Plan (2001 Restatement) (incorporated by reference to Exhibit 4(c)(2) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2001).
4(c)(3)	Elan Corporation, plc 1996 Long-Term Incentive Plan (2001 Restatement) (incorporated by reference to Exhibit 4(c)(3) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2001).
4(c)(4)	Elan Corporation, plc 1996 Consultant Option Plan (2001 Restatement) (incorporated by reference to Exhibit 4(c)(4) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2001).
4(c)(5)	Elan Corporation, plc Employee Equity Purchase Plan, (2009 Restatement) (incorporated by reference to Exhibit 4(c)(5) of Elan Corporation, plc s Annual Report on Form 20-F for the year ended December 31, 2009).
4(c)(6)	Elan Corporation, plc 2004 Restricted Stock Unit Plan (incorporated by reference to Exhibit 4(c)(8) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2005).
4(c)(7)	Letter Agreement, dated as of June 8, 2009, among Elan Corporation, plc, Jack W. Schuler, Vaughn D. Bryson and Crabtree Partners L.C.C. (incorporated by reference to Exhibit 10.3 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on September 29, 2009).
4(c)(8)	Consulting Agreement, dated as of July 1, 2009, between Dr. Dennis J. Selkoe and Elan Pharmaceuticals, Inc. (incorporated by reference to Exhibit 10.4 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on September 29, 2009).

Table of Contents

Exhibit Number	Description
4(c)(9)	Employment Agreement, dated as of December 7, 2005, as amended by Amendment 2008-1 dated as of December 19, 2008, among Elan Pharmaceuticals, Inc., Elan Corporation, plc and G. Kelly Martin. (incorporated by reference to Exhibit 4(c)(11) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(10)	July 18, 2007 Letter Agreement between Dr. Lars Ekman and Elan Pharmaceuticals, Inc. (incorporated by reference to Exhibit 4(c)(12) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2007).
4(c)(11)	Elan Corporation, plc Cash Bonus Plan effective January 1, 2006, and revised as of January 1, 2009. (incorporated by reference to Exhibit 4(c)(13) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(12)	Elan Corporation, plc Profit Sharing Scheme 2006 (incorporated by reference to Exhibit 4(c)(16) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2005).
4(c)(13)	Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement). (incorporated by reference to Exhibit 4(c)(15) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(14)	Letter Agreement dated as of September 16, 2011 between Elan Corporation, plc and Shane Cooke (incorporated by reference to Exhibit 2.3 of the Report of Foreign Issuer of Elan Corporation, plc filed with the Commission on September 16, 2011).
4(c)(15)	Form of Deed of Indemnity between Elan Corporation, plc and directors and certain officers of Elan Corporation, plc (incorporated by reference to Exhibit 99.2 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on November 15, 2006).
4(c)(16)	Elan U.S. Severance Plan, amended and restated effective as of April 1, 2011 (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer of Elan Corporation, plc filed with the Commission on April 19, 2011).
4(c)(17)	Form of Memo Agreement dated May 17, 2007 amending certain outstanding grant agreements for restricted stock units and stock option agreements held by senior officers who are members of the Operating Committee of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(19) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2007).
4(c)(18)	Form of Restricted Stock Unit Agreement under the Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement) for certain senior officers who are members of the Operating Committee of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(20) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(19)	Form of Nonstatutory Stock Option Agreement under the Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement) for certain senior officers who are members of the Operating Committee of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(21) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(20)	Form of Nonstatutory Stock Option Agreement under the Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement) for new members of the Board of Directors of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(22) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(21)	Form of Nonstatutory Stock Option Agreement under the Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement) for members of the Board of Directors of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(23) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).

Table of Contents

Exhibit Number	Description
4(c)(22)	Form of Restricted Stock Unit Agreement under the Elan Corporation, plc 2006 Long Term Incentive Plan (2009 Amendment and Restatement) for non-executive members of the Board of Directors of Elan Corporation, plc. (incorporated by reference to Exhibit 4(c)(24) of Elan Corporation, plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2008).
4(c)(23)	Letter Agreement dated as of March 10, 2011 between Elan Pharmaceuticals, Inc. and Dr. Carlos Paya (incorporated by reference to Exhibit 10.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on March 15, 2011).
4(c)(24)	Amendment to Employment Agreement entered into as of June 2, 2010 between Elan Pharmaceuticals, Inc. and G. Kelly Martin serving as an amendment to an employment agreement dated December 7, 2005, as amended effective December 19, 2008 among the parties and Elan Corporation, plc (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on August 10, 2010).
4(c)(25)	Memorandum of Understanding dated 17 September 2010 among Elan Corporation, plc, Jack Schuler and Vaughn Bryson (incorporated by reference to Exhibit 4(c)(27) of Elan Corporation plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2010).
4(c)(26)	Binding Fee Letter Dated 17 September 2010 among Elan Corporation, plc, Jack Schuler and Vaughn Bryson (incorporated by reference to Exhibit 4(c)(28) of Elan Corporation plc s Annual Report on Form 20-F for the fiscal year ended December 31, 2010).
4(c)(27)	Amendment 2011-1 to Elan U.S. Severance Plan effective as of July 14, 2011.
4(c)(28)	Chairman s Letter of Appointment dated February 9, 2011 (incorporated by reference to Exhibit 99.1 of the Report of Foreign Issuer on Form 6-K of Elan Corporation, plc filed with the Commission on February 10, 2011).
8.1	Subsidiaries of Elan Corporation, plc.
12.1	Certification of G. Kelly Martin pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of Nigel Clerkin pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of G. Kelly Martin pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certification of Nigel Clerkin pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Consent of Independent Registered Public Accounting Firm, KPMG.
101	XBRL (Extensible Business Reporting Language) The following materials from Elan s Annual Report on Form 20-F for the fiscal year-ended December 31, 2011, formatted in XBRL: (i) Consolidated Statements of Operations, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Shareholders Equity/(Deficit) and Comprehensive Income/(Loss) (iv) Consolidated Statements of Cash Flows, (v) Notes to the Consolidated Financial Statements, and (vi) Schedule II Valuation and Qualifying Accounts and Reserves.

Table of Contents

SIGNATURES

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

Elan Corporation, plc

/s/ NIGEL CLERKIN
Nigel Clerkin
Executive Vice President and Chief Financial Officer

Date: February 23, 2012

184

Table of Contents

Schedule II

Valuation and Qualifying Accounts and Reserves

Years ended December 31, 2011, 2010 and 2009

Description	Balance at Beginning of Year	Additions[1]	Deductions[2] (In millions)	Balance at End of Year
Allowance for doubtful accounts:				
Year ended December 31, 2011	$ 0.4	$	$ (0.4)	$
Year ended December 31, 2010	$ 0.4	$ 0.4	$ (0.4)	$ 0.4
Year ended December 31, 2009	$ 0.9	$ 0.7	$ (1.2)	$ 0.4
Sales returns and allowances, discounts, chargebacks and rebates:[3]				
Year ended December 31, 2011	$ 37.9	$ 188.8	$ (181.2)	$ 45.5
Year ended December 31, 2010	$ 26.5	$ 127.5	$ (116.1)	$ 37.9
Year ended December 31, 2009	$ 19.2	$ 79.3	$ (72.0)	$ 26.5

(1) *Additions to allowance for doubtful accounts are recorded as an expense.*

(2) *Represents amounts written off or returned against the allowance or reserves, or returned against earnings. Deductions to sales discounts and allowances relate to sales returns and payments.*

(3) *Additions to sales discounts and allowances are recorded as a reduction of revenue.*

185