

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**  
SEC Accession No. **0000714655-95-000002**

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### FILER

#### **BIAGEN INC**

CIK: **714655** | IRS No.: **043002117** | State of Incorporation: **MA** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-12042** | Film No.: **95535963**  
SIC: **2836** Biological products, (no diagnostic substances)

Mailing Address  
00000

Business Address  
14 CAMBRIDGE CTR  
CAMBRIDGE MA 02142  
6176792000

FORM 10-Q

(Mark one)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 1995

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 0-12042

BIOGEN, INC.

(Exact name of registrant as specified in its charter)

Massachusetts 04-3002117  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

14 Cambridge Center, Cambridge, MA 02142  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (617) 679-2000

Former name, former address and former fiscal year, if changed since last report: Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Number of shares outstanding of each of the issuer's classes of common stock, as of May 5, 1995:

Common Stock, par value \$0.01	33,336,450
(Title of each class)	(Number of Shares)

B I O G E N , I N C .

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\* \* \* \* \*

Note concerning trademarks: Certain names mentioned in this report are trademarks owned by Biogen, Inc. or its affiliates. Hirulog(TM) and AVONEX(TM) are trademarks of Biogen, Inc.

BIOGEN, INC. AND SUBSIDIARIES

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CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

	March 31, 1995 (unaudited)	Dec. 31, 1994
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents . . . . .	\$ 68,387	\$ 54,682
Marketable securities . . . . .	218,238	213,120
Accounts receivable . . . . .	12,518	18,502
Other . . . . .	9,642	8,480
	-----	-----
Total current assets . . . . .	308,785	294,784
	-----	-----
Property, plant and equipment		
Total cost . . . . .	114,621	104,651
Less accumulated depreciation . . . . .	33,166	31,489
	-----	-----
Property, plant and equipment, net . . . . .	81,455	73,162
	-----	-----
Other assets		
Patents, net . . . . .	8,199	8,116
Other . . . . .	1,819	1,800
	-----	-----
Total other assets . . . . .	10,018	9,916
	-----	-----
	\$400,258	\$377,862
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable . . . . .	\$ 5,286	\$ 9,991
Current portion long-term debt . . . . .	833	--
Other current liabilities . . . . .	33,332	37,937
	-----	-----
Total current liabilities . . . . .	39,451	47,928
	-----	-----
Long-term debt . . . . .	24,167	--
	-----	-----
Shareholders' equity		

Common stock . . . . .	332	331
Additional paid-in capital . . . . .	369,603	368,784
Deficit. . . . .	(30,525)	(33,359)
Unrealized losses on marketable securities . . . . .	(2,814)	(5,867)
Accumulated translation adjustment . . . . .	44	45
	-----	-----
Total shareholders' equity . . . . .	336,640	329,934
	-----	-----
	\$400,258	\$377,862
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

BIOGEN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)  
(in thousands, except per share amounts)

	Three months ended March 31,	
	1995	1994
REVENUES		
Royalties and product sales . . . . .	\$ 31,953	\$ 41,167
Interest. . . . .	4,017	3,613
	-----	-----
Total revenues. . . . .	35,970	44,780
	-----	-----
EXPENSES		
Cost of sales . . . . .	2,504	2,471
Research and development. . . . .	20,435	23,334
General and administrative. . . . .	7,521	5,963
Other . . . . .	2,461	103
	-----	-----
Total expenses. . . . .	32,921	31,871
	-----	-----
INCOME BEFORE INCOME TAXES. . . . .	3,049	12,909
Income taxes. . . . .	215	1,680
	-----	-----
NET INCOME. . . . .	\$ 2,834	\$ 11,229
	=====	=====

NET INCOME PER SHARE. . . . .	\$ 0.08	\$ 0.31
	=====	=====
Average shares outstanding. . . . .	35,477	35,741
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

BIOGEN, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)  
(in thousands)

	Three months ended March 31,	
	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income . . . . .	\$ 2,834	\$11,229
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization . . . . .	2,276	1,764
Other . . . . .	212	(152)
Changes in:		
Accounts receivable . . . . .	5,984	23,517
Other current assets. . . . .	(1,162)	(104)
Other assets. . . . .	(19)	(344)
Accounts payable and other current liabilities. . . . .	(9,310)	(2,246)
	-----	-----
Net cash provided from operating activities. . . . .	815	33,664
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities . . . . .	(31,939)	(136,511)
Proceeds from sales of marketable securities . . . . .	29,791	85,902
Acquisitions of property and equipment . . . . .	(9,970)	(6,558)
Additions to patents . . . . .	(682)	(533)
	-----	-----
Net cash used by investing activities. . . . .	(12,800)	(57,700)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt . . . . .	25,000	--
Issuance of common stock . . . . .	690	2,194
	-----	-----

Net cash provided from financing activities. . . . .	25,690	2,194
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS . . . . .	13,705	(21,842)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD. . . . .	54,682	74,546
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD. . . . .	\$ 68,387	\$52,704
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

BIOGEN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of only normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows of the Company. The Company's accounting policies are described in the Notes to Consolidated Financial Statements in the Company's 1994 Annual Report. Interim results are not necessarily indicative of the operating results for the full year.
2. During the third quarter of 1994, the Company incurred a pre-tax charge to other expenses of \$25 million as a result of its decision to discontinue its major activities associated with Hirulog(TM) development. The charge consists of cash payments to a third-party manufacturer for product manufactured for clinical trials and to cover a portion of other costs incurred by the manufacturer in anticipation of ongoing Hirulog(TM) related activities, and cash payments for clinical research organizations, clinical investigators and institutions involved in clinical trials to cover noncancellable costs incurred by them in conducting clinical trials and in connection with wind-down activities. Discontinuance of the Hirulog(TM) program did not result in any termination of employees or internal restructuring costs. As of March 31, 1995, \$6.1 million remained in reserve and is expected to be settled by the end of 1995.
3. In March 1995, the Company completed construction of its research

laboratory and office building in Cambridge, Massachusetts and exercised its option to obtain a 7.5% secured term loan with a bank for \$25 million. The annual principal payable in each of the years 1996 through 1999 is \$1.7 million with the balance due May 8, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

Results of Operations

For the first quarter ended March 31, 1995, the Company reported net income of \$2.8 million or \$0.08 per share as compared to net income of \$11.2 million or \$0.31 per share in the first quarter of 1994.

Total revenues for the first quarter of 1995 were \$36.0 million, as compared to \$44.8 million in the first quarter of 1994. Revenues from royalties and product sales for the current quarter were lower than the comparable 1994 quarter, primarily because of the inclusion in the 1994 quarter of a one-time payment of approximately \$10 million from Eli Lilly & Co. ("Lilly") under a licensing agreement covering certain patent rights for gene expression methods. Under this agreement, Lilly paid the Company in the first quarter of 1994 approximately \$10 million in royalties that related to sales occurring before 1994. Ongoing royalties received from licensee sales of hepatitis B vaccines, sold by SmithKline Beecham plc ("SmithKline") and Merck & Co., Inc. ("Merck"), increased and more than offset the decrease in royalties received from Schering-Plough Corporation ("Schering-Plough"), the Company's licensee for alpha interferon. Sales of hepatitis B vaccines outside the United States increased 83% from the prior year quarter. The market for hepatitis B vaccines increased significantly in Europe, primarily in France, where a vaccination program for infants and adolescents was instituted during 1994. Alpha interferon sales by Schering-Plough declined in the current quarter, due primarily to lower sales in Japan, which was driven by a 17% government-mandated decrease in the price of alpha interferon, effective on April 1, 1994, and restrictions on off-label usage. In the near term, the Company expects overall sales of licensee products to continue at current levels although royalty income may fluctuate depending on changes in sales volumes for specific products. However, there are numerous health care reform initiatives currently underway in the United States and other major pharmaceutical markets and it is not yet clear what effect, if any, these initiatives or other developments may have on product sales by the Company's licensees. In addition, these sales levels may fluctuate from quarter to quarter due to the timing and extent of major events such as new indication approvals, vaccination programs or licensing arrangements.

Interest income for the current quarter increased from the comparable 1994 amount primarily due to higher interest rates.



Total expenses for the current quarter were \$32.9 million as compared to \$31.9 million in the 1994 quarter. Research and development expense decreased \$2.9 million, due to the Company's decision in the third quarter of 1994 to discontinue its major activities associated with Hirulog(TM) development. Current quarter costs included increased regulatory and development costs for AVONEX(TM) recombinant interferon beta while the 1994 quarter had higher costs, primarily for Hirulog(TM) clinical development. On May 4, 1995, the Company announced that it has filed with the European Medicines Evaluation Agency for European market approval of AVONEX(TM) for treatment of multiple sclerosis. The Company also said it will file within the next several weeks for U.S. Food and Drug Administration approval to market the drug in the United States. General and administrative expenses increased by \$1.6 million due mostly to higher costs related to market development efforts, continued development of the Company's European headquarters in Paris and legal and personnel related costs. Other

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expenses included the effect of foreign exchange movements associated with the sale of certain accounts receivable, losses from the sale of certain marketable securities and interest on debt obligations.

Income tax expense for the current quarter was substantially less than the amount computed at U.S. federal statutory rates because of the utilization of net operating loss carryforwards.

#### Financial Condition

At March 31, 1995, cash, cash equivalents and marketable securities amounted to \$286.6 million, an \$18.8 million increase from the \$267.8 million on hand at the end of 1994. Working capital increased \$22.5 million to \$269.3 million. Net cash provided from operating activities for the three months ended March 31, 1995 was \$0.8 million while the Company's common stock option and purchase plans provided \$0.7 million. The Company also received \$25.0 million under a secured term loan agreement with a bank. Outflows of cash included investments in property and equipment and patents of \$10.7 million.

In March 1995, the Company completed construction of its research laboratory and office building in Cambridge, Massachusetts and exercised its option to obtain a 7.5% secured term loan with a bank for \$25 million. The annual principal payable in each of the years 1996 through 1999 is \$1.7 million with the balance due May 8, 2005.

In the first quarter of 1993, SmithKline initiated arbitration in the United States regarding the rate of royalties payable from sales of hepatitis B vaccines by SmithKline in the United States. The amount paid by SmithKline and in dispute as of December 31, 1994, was approximately \$18 million. In April 1995, an arbitration panel ruled in Biogen's favor. An appeal by SmithKline of this decision is possible. However, the Company

believes that, in the event of such appeal, an adverse ruling is not probable and, therefore no amount has been accrued.

During 1995, the Company expects to begin construction on a biologics manufacturing facility in Research Triangle Park, North Carolina. The estimated cost of construction, including land, is \$57 million.

The Company currently believes that the financial resources available to it, including its current working capital and its existing and anticipated contractual relationships, will be sufficient to finance its planned operations and capital expenditures for the near term. However, the Company may have additional funding needs, the extent of which will depend upon the level of royalties and product sales, the outcome of clinical trial programs, the receipt and timing of required regulatory approvals for products, the results of research and development efforts and business expansion opportunities. Accordingly, from time to time, the Company may obtain funding through various means which could include collaborative agreements, lease or mortgage financings, sales of equity or debt securities and other financing arrangements.

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With respect to the unaudited condensed consolidated financial information of Biogen, Inc. and its subsidiaries at March 31, 1995 and for the three month periods ended March 31, 1995 and 1994, Price Waterhouse LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated April 27, 1995 appearing herein, states that they did not audit and they do not express an opinion on that unaudited condensed consolidated financial information. Price Waterhouse LLP has not carried out any significant or additional audit tests beyond those which would have been necessary if their report had not been included. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Price Waterhouse LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited condensed consolidated financial information because that report is not a "report" or a "part" of the registration statement prepared or certified by Price Waterhouse LLP within the meaning of sections 7 and 11 of the Act.

#### REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet of Biogen, Inc. and its subsidiaries as of March 31, 1995, and the related condensed consolidated statements of income and of cash flows for the three month periods ended March 31, 1995 and 1994. This financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial information for it to be in conformity with generally accepted accounting principles.

We previously audited in accordance with generally accepted auditing standards, the consolidated balance sheet as of December 31, 1994, and the related consolidated statements of income, of cash flows and of shareholders' equity for the year then ended (not presented herein), and in our report dated February 7, 1995 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1994, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ Price Waterhouse LLP

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Boston, Massachusetts  
April 27, 1995

PART II - OTHER INFORMATION

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Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

No. 11	Computation of Earnings per Share.
No. 15	Letter from Price Waterhouse LLP.

(b) There were no reports on Form 8-K filed for the quarter ended March 31, 1995.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BIOGEN, INC.

Dated: May 8, 1995

/s/Timothy M. Kish

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Timothy M. Kish  
Vice President-Finance and  
Chief Financial Officer

EXHIBITS

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Index to Exhibits.

- No. 11 Computation of Earnings per Share.
- No. 15 Letter from Price Waterhouse LLP.

## EXHIBIT 11

## BIOGEN, INC. and SUBSIDIARIES

Computation of Earnings Per Share  
(unaudited)

(in thousands, except per share amounts)

	Three months ended March 31,	
	1995	1994
Primary earnings per share		
Weighted average number of shares outstanding. . . . .	33,166	32,402
Shares deemed outstanding from the assumed exercise of stock options and warrants. . . . .	2,311	3,339
	-----	-----
Total . . . . .	35,477	35,741
	=====	=====
Net income. . . . .	\$ 2,834	\$ 11,229
	=====	=====
Primary earnings per share of common stock . . . . .	\$ 0.08	\$ 0.31
	=====	=====
Fully diluted earnings per share (a)		
Weighted average number of shares outstanding. . . . .	33,166	32,402
Shares deemed outstanding from the assumed exercise of stock options and warrants. . . . .	2,406	3,339
	-----	-----
Total . . . . .	35,572	35,741
	=====	=====
Net income . . . . .	\$ 2,834	\$ 11,229
	=====	=====
Fully diluted earnings per share of common stock . . . . .	\$ 0.08	\$ 0.31

- (a) This calculation is submitted in accordance with Regulation S-K item 601 (b) (11) although not required by Footnote 2 to Paragraph 14 of APB Opinion No. 15 because it results in dilution of less than 3%.

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

Ladies and Gentlemen:

We are aware that our report dated April 27, 1995 (issued pursuant to the provisions of Statement on Auditing Standards No. 71) on the unaudited condensed consolidated balance sheet of Biogen, Inc. and subsidiaries at March 31, 1995, and the related condensed consolidated statements of income and of cash flows for the three month period then ended, is incorporated by reference in the Prospectuses constituting part of its Registration Statements on Form S-3, as amended (Nos. 33-14741, 33-14743, 33-20183 and 33-51639) and in the Registration Statements on Form S-8 as amended (Nos. 2-87550, 2-96157, 33-9827, 33-14742, 33-37312, 33-22378 and 33-41077 and as filed on September 21, 1993). We are also aware of our responsibilities under the Securities Act of 1933.

Yours very truly,

/s/ Price Waterhouse LLP  
-----  
Boston, Massachusetts  
May 8, 1995

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