BARGE JAMES W
Form 4
February 03, 2010

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
BARGE JAMES W

(Last) (First) (Middle)

1515 BROADWAY

(Street)

NEW YORK, NY 10036

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Viacom Inc. [VIA, VIAB]

3. Date of Earliest Transaction (Month/Day/Year)
02/01/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP, Controller, Tax & Treas.

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class B Common Stock	02/01/2010		M		3,152	A	(1)	5,043	D	
Class B Common Stock	02/01/2010		F		1,187	D	$ 29.29	3,856	D	
Class B Common Stock								496	I	By 401(k)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Pr Deriv Secu (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Restricted Share Units (2)	(1)	02/01/2010		M			3,152	(1)	(1)	Class B Common Stock	3,152	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BARGE JAMES W 1515 BROADWAY NEW YORK, NY 10036			EVP, Controller, Tax & Treas.	

Signatures

/s/ James W. Barge	02/03/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares of the Issuer's Class B common stock were issued to the Reporting Person on February 1, 2010 upon vesting of the second of two equal annual installments of previously granted Restricted Share Units. On the date of vesting, the closing price of the Issuer's Class B common stock on the New York Stock Exchange was $29.29 per share.

(2) Granted under the Viacom Inc. 2006 Long-Term Management Incentive Plan, as amended and restated December 2, 2008, for no consideration.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Available-for-sale marketable securities:

Corporate bonds
$
767,683

—

$
767,683

U.S. government and government agency obligations
51,209

—

51,209

Municipal bonds
17,924

—

17,924

Equity securities
31,467

$
31,467

—

$

Explanation of Responses:

868,283

$
31,467

$
836,816

Marketable securities included in Level 2 are valued using quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuations in which significant inputs used are observable. The Company considers market liquidity in determining the fair value for these securities. The Company did not record any charges for other-than-temporary impairment of its Level 2 marketable securities in 2016, 2015, and 2014.

There were no purchases, sales, or maturities of Level 3 marketable securities and no unrealized gains or losses related to Level 3 marketable securities for the years ended December 31, 2016 and 2015. During 2016, transfers of marketable securities from Level 2 to Level 1 were $44.1 million in connection with the lapse of transfer restrictions in November 2016 on the Company's investment in Intellia common shares. During 2015, transfers of marketable securities from Level 2 to Level 1 were $91.4 million in connection with the lapse of the transfer restrictions in January 2015 on the Company's investment in Adverum Biotechnologies, Inc. (formerly Avalanche Biotechnologies, Inc.) common shares. The Company's policy for recognition of transfers between levels of the fair value hierarchy is to recognize any transfer at the beginning of the fiscal quarter in which the determination to transfer was made. There were no other transfers of marketable securities between Levels 1, 2, or 3 classifications during the years ended December 31, 2016 and 2015.

As of December 31, 2015, the Company had $11.2 million in aggregate principal amount of 1.875% convertible senior notes outstanding that matured in October 2016 (see Note 11). The fair value of the outstanding convertible senior notes was estimated to be $72.8 million as of December 31, 2015, and was determined based on Level 2 inputs, such as market and observable sources.

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REGENERON PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unless otherwise noted, dollars in thousands, except per share data)

7. Inventories
Inventories consist of the following:

	As of December 31,	
	2016	2015
Raw materials	$92,287	$59,151
Work-in-process	202,301	132,068
Finished goods	13,334	11,197
Deferred costs	91,434	36,162
	$399,356	$238,578

Deferred costs represent the costs of product manufactured and shipped to the Company's collaborators for which recognition of revenue has been deferred (see Note 1). For the years ended December 31, 2016, 2015, and 2014, cost of goods sold included inventory write-downs and reserves totaling $14.0 million, $10.6 million, and $6.0 million, respectively.
8. Property, Plant, and Equipment
Property, plant, and equipment consist of the following:

	As of December 31,	
	2016	2015
Land	$103,906	$77,826
Building and improvements	1,278,283	760,517
Leasehold improvements	101,101	95,226
Construction-in-progress	318,929	579,834
Laboratory and other equipment	554,181	330,432
Furniture, computer and office equipment, and other	152,525	81,381
	2,508,925	1,925,216
Less, accumulated depreciation and amortization	(425,504)	(331,096)
	$2,083,421	$1,594,120

As of December 31, 2016 and 2015, $1,441.2 million and $1,118.4 million, respectively, of the Company's property, plant, and equipment was located in the United States and $642.2 million and $475.7 million, respectively, was located in Ireland. In 2015, the Company acquired an approximate 100-acre parcel of undeveloped land adjacent to the Company's current Tarrytown, New York location for an aggregate purchase price of $73.0 million.
Depreciation and amortization expense on property, plant, and equipment amounted to $104.7 million, $74.9 million, and $52.7 million for the years ended December 31, 2016, 2015, and 2014, respectively.
Property, plant, and equipment, at cost, as of December 31, 2016 and 2015 included $269.0 million and $254.6 million, respectively, of costs incurred by the Company's landlord to construct laboratory and office facilities in Tarrytown, New York. Additionally, property, plant, and equipment, at cost, as of December 31, 2016 included $138.1 million of leased property under a capital lease. See Note 12a.

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REGENERON PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unless otherwise noted, dollars in thousands, except per share data)

9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	As of December 31,	
	2016	2015
Accounts payable	$134,984	$140,962
Accrued payroll and related costs	153,086	133,223
Accrued clinical trial expense	91,753	88,297
Accrued sales-related charges, deductions, and royalties	159,985	195,986
Income taxes payable	235,776	—
Other accrued expenses and liabilities	103,512	85,644
	$879,096	$644,112

10. Deferred Revenue

Deferred revenue consists of the following:

	As of December 31,	
	2016	2015
Current portion:		
Received or receivable from Sanofi (see Note 3a)	$115,267	$101,573
Received or receivable from Bayer (see Note 3b)	31,084	24,290
Received or receivable from MTPC (see Note 3c)	9,188	2,352
Received or receivable from Teva (see Note 3d)	43,122	—
Received for technology license agreement (see Note 4)	23,572	23,572
Other	9,431	1,700
	$231,664	$153,487
Long-term portion:		
Received or receivable from Sanofi (see Note 3a)	$503,474	$582,664
Received or receivable from Bayer (see Note 3b)	77,028	31,926
Received or receivable from MTPC (see Note 3c)	45,940	7,059
Received or receivable from Teva (see Note 3d)	194,050	—
Received for technology license agreement (see Note 4)	10,280	33,851
Other	—	9,179
	$830,772	$664,679

11. Debt

a. Convertible Debt

In October 2011, the Company issued $400.0 million aggregate principal amount of 1.875% convertible senior notes (the "Notes") in a private placement. The Notes paid interest semi-annually on April 1 and October 1, and matured on October 1, 2016. The Notes were convertible, subject to certain conditions, into cash, shares of the Company's Common Stock, or a combination of cash and shares of Common Stock, at the Company's option. The Notes initial conversion price was approximately $84.02 per share.

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In accordance with accounting guidance for debt with conversion and other options, the Company accounted for the liability and equity components of the Notes separately. The estimated fair value of the liability component at the date of issuance was $271.1 million, and was computed based on the fair value of similar debt instruments that do not include a conversion feature. The equity component of $120.9 million was recognized as a debt discount and represents the difference between the $392.0 million of gross proceeds from the issuance of the Notes and the $271.1 million estimated fair value of the liability component at the date of issuance. The debt discount was amortized over the expected life of a similar liability without the equity component. The Company determined this expected life to be equal to the term of the Notes, resulting in an amortization period ending October 1, 2016. The effective interest rate used to amortize the debt discount was approximately 10.2%, which was based on the Company's estimated non-convertible borrowing rate as of the date the Notes were issued.

In connection with the offering of the Notes in October 2011, the Company entered into convertible note hedge ("call option") and warrant transactions with multiple counterparties, including an affiliate of the initial purchaser of the Notes. The convertible note hedge covered, subject to customary anti-dilution adjustments, the number of shares of the Company's Common Stock that initially underlie the Notes, and were intended to reduce the potential dilutive impact of the conversion feature of the Notes. The convertible note hedge terminated upon the earlier of the maturity date of the Notes or the first day the Notes were no longer outstanding. The Company paid $117.5 million for the convertible note hedge, which was recorded as a reduction to additional paid-in capital. The warrants had an initial strike price of approximately $103.41 per share, could be settled in cash or shares of the Company's Common Stock, at the Company's option, and were to become exercisable at various dates during 2017. Proceeds received from the warrant transactions totaled $93.8 million and were recorded as additional paid-in capital. The original convertible note hedge and warrants were both considered indexed to the Company's Common Stock and classified as equity; therefore, the convertible note hedge and warrants were not accounted for as derivative instruments.

During 2015, the Company settled conversion obligations for $166.5 million principal amount of the Company's Notes that was previously surrendered for conversion. In accordance with the terms of the Notes, the Company elected to settle these conversion obligations through a combination of cash, in an amount equal to the principal amount of the converted Notes, and shares of the Company's Common Stock in respect of any amounts due in excess thereof. Consequently, in 2015, the Company paid $166.5 million in cash and issued 1,625,113 shares of Common Stock. In addition, in 2015, the Company allocated $819.7 million of the settlement consideration provided to the Note holders to the reacquisition of the equity component of the Notes, and recognized such amount as a reduction of stockholders' equity. In 2015, the Company also recognized a $18.9 million loss on the debt extinguishment. In connection with the Note conversions in 2015, the Company also exercised a proportionate amount of its convertible note hedges, for which the Company received 1,625,088 shares of Common Stock, which was approximately equal to the number of shares the Company was required to issue to settle the non-cash portion of the related Note conversions. The Company recorded the cost of the shares received, or $136.5 million, as Treasury Stock during 2015.

During 2016, the Company settled conversion obligations for $12.9 million principal amount of the Company's Notes. Consequently, in 2016, the Company paid $12.9 million in cash and issued 121,058 shares of Common Stock. In addition, the Company allocated $47.8 million of the settlement consideration provided to the Note holders to the reacquisition of the equity component of the Notes, and recognized such amount as a reduction of stockholders' equity. The loss on the debt extinguishment in connection with the Notes that were surrendered for conversion during 2016 was not material. As a result of these Note conversions, the Company also exercised a proportionate amount of its convertible note hedges during 2016, for which the Company received 121,048 shares of Common Stock, which was approximately equal to the number of shares the Company was required to issue to settle the non-cash portion of the related Note conversions. The Company recorded the cost of the shares received, or $10.2 million, as Treasury Stock during 2016.

The net carrying amount of the liability component of the Notes consists of the following:

	As of December 31, 2016	2015
Total convertible senior notes - par	$—	$11,154
Unamortized discount	—	(352)
	$—	$10,802

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REGENERON PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The December 31, 2015 net carrying amount of the liability component of the Notes was recorded within other current liabilities within the Company's Consolidated Balance Sheet since the Notes were due to mature on October 1, 2016. Total interest expense associated with the Notes, net of capitalized interest as applicable, consists of the following:

	Year Ended December 31,		
	2016	2015	2014
Contractual coupon interest rate	$7	$544	$5,036
Amortization of discount and note issuance costs	150	2,818	17,821
	$157	$3,362	$22,857

Warrant Transactions

In November 2014, the Company entered into an amendment agreement with a warrant holder whereby the parties agreed to reduce a portion of the number of warrants held by the warrant holder. The Company was obligated to settle any payments due under the amendment agreement in February 2015. Given that the amendment agreement contained a conditional obligation that required settlement in cash, and the Company's obligation was indexed to the Company's share price, the Company reclassified the estimated fair value of the 493,229 warrants from additional paid-in capital to a liability in November 2014, with such liability subsequently measured at fair value with changes in fair value recognized in earnings. As a result of the warrant holder closing out a portion of its hedge position prior to December 31, 2014, the Company recorded a $59.8 million accrued liability as of December 31, 2014 and the estimated fair value of the remaining liability as of December 31, 2014 was $87.5 million, which was recorded within other current liabilities within the Company's Consolidated Balance Sheet. During the first quarter of 2015, the warrant holder closed out additional portions of its hedge position, and, as a result, in February 2015 the Company paid a total of $124.0 million to reduce the number of warrants held by such warrant holder by 416,480. Upon expiration of the November 2014 amended agreement, in the first quarter of 2015, the remaining warrants were re-measured at fair value, and $23.3 million was reclassified back to additional paid-in capital, consistent with the original classification of the warrants under the 2011 issuance. Total losses related to changes in fair value of the warrants during the first quarter of 2015 were not material.

During 2014, in addition to the November 2014 warrant agreement described above, the Company entered into agreements to reduce the number of warrants held by the warrant holders. The Company was able to settle, at its option, any payments due under the amendment agreement in cash or by delivering shares of Common Stock. Pursuant to the agreements, the Company paid an aggregate amount of $294.6 million to the warrant holders to reduce the maximum number of shares of Common Stock issuable upon exercise of the warrants by 1,220,745 in the aggregate.

In November 2015, the Company entered into an amendment agreement with a warrant holder whereby the parties agreed to reduce a portion of the number of warrants held by the warrant holder. The reduction in the number of warrants was determined based on the number of warrants with respect to which the warrant holder closed out its hedge position, provided that the warrant holder did not effect any purchases at a price per share exceeding $535.00 per share, during the period starting on November 16, 2015 and ending no later than February 9, 2016. The Company was able to settle, at its option, any payments due under the amendment agreement in cash or by delivering shares of Common Stock. As a result of the warrant holder closing out a portion of its hedge position prior to December 31, 2015, the Company paid a total of $50.0 million in 2015 to reduce the number of warrants it held by 115,970. Additionally, during January 2016, the warrant holder closed out additional portions of its hedge position, and, as a result, the Company paid a total of $135.3 million in the first quarter of 2016 to further reduce the number of warrants held by such warrant holder by 360,406 (which was the remaining maximum number of warrants to be reduced subject to the amendment agreement).

In addition to the warrant transactions described above, during 2015, the Company entered into other agreements to reduce the number of warrants held by warrant holders. The Company was able to settle, at its option, any payments due under the amendment agreement in cash or by delivering shares of Common Stock. Pursuant to the agreements, the Company paid an aggregate amount of $399.5 million to the warrant holders during 2015 to reduce the number of shares of Common Stock issuable upon exercise of the warrant by 898,547 in the aggregate.

In February 2016, the Company entered into an amendment agreement with a warrant holder whereby the parties agreed to reduce a portion of the number of warrants held by the warrant holder by up to a maximum of 975,142. The reduction in the number of warrants was determined based on the number of warrants with respect to which the warrant holder closed out its hedge position,

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REGENERON PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unless otherwise noted, dollars in thousands, except per share data)

provided that the warrant holder did not effect any purchases at a price per share exceeding $375.00 per share, during the period starting on February 22, 2016 and ending no later than May 5, 2016. The Company was able to settle, at its option, any payments due under the amendment agreement in cash or by delivering shares of Common Stock. As a result of the warrant holder closing out a portion of its hedge position, the Company paid a total of $106.9 million to reduce the number of warrants held by such warrant holder by 403,665.

In November 2016, the Company and warrant holders entered into warrant termination agreements whereby the parties agreed to cancel the remaining warrants held by the warrant holders and to terminate the respective warrant agreements in consideration for payments by the Company of $401.2 million in the aggregate. The Company made the termination payments in the fourth quarter of 2016, and, as a result, no warrants remained outstanding as of December 31, 2016.

b. Credit Facility

In March 2015, the Company entered into an agreement with a syndicate of lenders (the "Credit Agreement") which provides for a $750.0 million senior unsecured five-year revolving credit facility (the "Credit Facility"). The Credit Agreement includes an option for the Company to elect to increase the commitments under the Credit Facility and/or to enter into one or more tranches of term loans in the aggregate principal amount of up to $250.0 million subject to the consent of the lenders providing the additional commitments or term loans, as applicable, and certain other conditions. Proceeds of the loans under the Credit Facility may be used to finance working capital needs, and for general corporate or other lawful purposes, of Regeneron and its subsidiaries. The Credit Agreement also provides a $100.0 million sublimit for letters of credit. The Credit Agreement includes an option for the Company to elect to extend the maturity date of the Credit Facility beyond March 2020, subject to the consent of the extending lenders and certain other conditions. Amounts borrowed under the Credit Facility may be prepaid, and the commitments under the Credit Facility may be terminated, at any time without premium or penalty.

Any loans under the Credit Facility have a variable interest rate based on either the London Interbank Offered Rate ("LIBOR") or an alternate base rate, plus an applicable margin that varies with the Company's debt rating and total leverage ratio. The Company had no borrowings outstanding under the Credit Facility as of December 31, 2016.

The Credit Agreement contains financial and operating covenants. Financial covenants include a maximum total leverage ratio and a minimum interest expense coverage ratio. The Company was in compliance with all covenants of the Credit Facility as of December 31, 2016.

12. Commitments and Contingencies

a. Leases

Descriptions of Lease Agreements

The Company leases laboratory and office facilities in Tarrytown, New York (the "Tarrytown Leases"). The facilities leased by the Company in Tarrytown include (i) space in previously existing buildings, (ii) newly constructed space in two buildings ("Buildings A and B") that was completed in 2009, (iii) newly constructed space in a third building ("Building C") that was completed in 2011, (iv) under an April 2013 lease agreement, newly constructed laboratory and office space in two buildings ("Buildings D and E") that was completed in the third quarter of 2015, and (v) under a June 2015 lease agreement, an existing building ("Building F") that the Company intends to renovate for additional laboratory and office space. The lease agreements related to Buildings A, B, C, D, E, and F (collectively, the "Buildings") expire in 2029; the remaining facilities under the lease expire in June 2024. The Tarrytown Leases provide for monthly payments over their respective terms and additional charges for utilities, taxes, and operating expenses.

Historically, certain of the premises under the Tarrytown Leases had been accounted for as operating leases. However, as described further below under "Facility Lease Obligations," for the Buildings that the Company is leasing, the Company is deemed, in substance, to be the owner of the landlord's Buildings in accordance with the application of FASB authoritative guidance.

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Explanation of Responses:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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On December 30, 2016, the Company entered into a Purchase Agreement with BMR-Landmark at Eastview LLC and BMR-Landmark at Eastview IV LLC (collectively, "BMR"), pursuant to which the Company agreed to purchase BMR's Tarrytown, New York facilities (the "Facility") for a purchase price of $720.0 million, subject to certain customary adjustments. The Company currently occupies a significant portion of the Facility, with the remaining rentable area, or approximately 300,000 square feet, under leases to third-party tenants. In accordance with the terms of the Purchase Agreement, the Company paid $57.0 million toward the purchase price to BMR in December 2016. The closing of the Purchase Agreement is anticipated in the first quarter of 2017.

The Company intends to fund the acquisition contemplated by the Purchase Agreement with a new financing. Accordingly, the Company has entered into an engagement letter with Banc of America Leasing & Capital, LLC ("BAL"), pursuant to which BAL has been engaged to use its best efforts to arrange a $720.0 million lease financing in connection with the acquisition contemplated by the Purchase Agreement. As part of the contemplated financing, the Company intends to assign some or all its rights under the Purchase Agreement (including the right to take title to the Facility) to an affiliate of BAL at the closing of the financing, as a result of which such affiliate will become the legal owner of the Facility (the "Lessor"). Upon assignment of its rights, the Company expects to be reimbursed by BAL or an affiliate of BAL for the $57.0 million payment the Company made in December 2016. Immediately thereafter, the Company intends to lease the Facility from the Lessor for a term of five years. At the end of the lease term, the Company expects to have an option to extend the term of the lease (subject to the consent of the financing providers), purchase the Facility at a predetermined amount, or sell the Facility to a third party on behalf of the Lessor. While the Company has engaged BAL to use its best efforts to arrange a financing in connection with the contemplated Purchase Agreement, there is no guarantee that the Company will be able to obtain such financing on the agreed terms or at all.

Upon entering into the Purchase Agreement with BMR, the premises under the Company's Tarrytown Leases that were historically accounted for as operating leases were deemed to be modified, as the Company now has the option to purchase the facility, under terms that make it reasonably assured to be exercised. Consequently, the leases for such premises have been re-classified as a capital lease upon execution of the Purchase Agreement, and a proportionate amount of the $57.0 million payment was recorded as reduction of the initial capital lease liability. The execution of the Purchase Agreement did not impact the balance sheet classification for the Buildings; however, a proportionate amount of the $57.0 million payment was recorded as a reduction of the existing facility lease obligation.

The Company also leases certain other laboratory, office, and storage space and equipment under operating leases which expire at various times through 2022.

Commitments under Operating Leases

The estimated future minimum noncancelable lease commitments under operating leases, as of December 31, 2016, are as follows:

	Facilities	Equipment	Total
2017	$4,728	$ 5,156	$9,884
2018	4,860	825	5,685
2019	4,817	273	5,090
2020	4,271	12	4,283
2021	3,982	11	3,993
Thereafter	22,336	—	22,336
	$44,994	$ 6,277	$51,271

Rent expense under operating leases was:

Year Ended December 31,	Facilities	Equipment	Total
2016	$15,861	$ 852	$16,713
2015	14,659	543	15,202

2014	13,360	952	14,312

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REGENERON PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Capital Leases

As described above, the Company's Tarrytown Leases that had been historically accounted for as operating leases were re-classified as capital leases upon entering into the Purchase Agreement on December 30, 2016. The estimated future minimum noncancelable lease commitments under these capital leases, as of December 31, 2016, was not material as the Company anticipates closing of the Purchase Agreement in the first quarter of 2017. The Company had no additional capital leases as of December 31, 2016.

At December 31, 2016, capital lease obligations of $127.3 million were included in the Company's Consolidated Balance Sheet.

Facility Lease Obligations

Based upon various factors, including the Company's involvement in the construction of the Buildings and its responsibility for directly paying for a substantial portion of tenant improvements, the Company is deemed, in substance, to be the owner of the landlord's Buildings in accordance with the application of FASB authoritative guidance. Consequently, in addition to capitalizing the tenant improvements, the Company capitalizes the landlord's costs of constructing these new facilities, offset by a corresponding lease obligation on the Company's Consolidated Balance Sheet. The Company also recognizes, as additional facility lease obligation, reimbursements from the Company's landlord for tenant improvement costs that the Company incurred since such payments that the Company receives from its landlord are deemed to be a financing obligation. The Company allocates a portion of its lease payments on these facilities between the Buildings and the land on which the Buildings are constructed, based on the initial estimated relative fair values of the land and Buildings. The land element of the lease is treated for accounting purposes as an operating lease.

With respect to Buildings A and B, in 2009, monthly lease payments commenced and the buildings were placed in service by the Company. The imputed interest rate applicable to the Company's Buildings A and B facility lease obligation is approximately 12%. With respect to Building C, in 2011, monthly lease payments commenced and the building was placed in service by the Company. The imputed interest rate applicable to the Company's Building C facility lease obligation is approximately 11%. With respect to Buildings D and E, in 2015, monthly lease payments commenced and the buildings were placed in service by the Company. The imputed interest rate applicable to the Company's Buildings D and E facility lease obligation is approximately 7%. With respect to Building F, the building was placed in service by the Company in 2016 and monthly lease payments do not commence until 2017. The imputed interest rate applicable to the Company's Buildings F facility lease obligation is approximately 10%. In 2016, 2015, and 2014, the Company recognized $5.4 million, $9.7 million, and $14.5 million, respectively, of interest expense in connection with the Buildings' facility lease obligations.

Facility lease obligations consist of the following:

	As of December 31,	
	2016	2015
Buildings A and B	$99,323	$108,857
Building C	44,338	49,475
Buildings D and E	194,037	206,376
Building F	16,154	—
	$353,852	$364,708

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The estimated future minimum noncancelable commitments under these facility lease obligations, as of December 31, 2016, exclusive of the potential impact of the closing of the Purchase Agreement (which is anticipated to occur in the first quarter of 2017), are as follows:

	Buildings A and B	Building C	Buildings D and E	Building F	Total
2017	$13,965	$4,740	$12,922	$490	$32,117
2018	14,242	4,873	13,267	759	33,141
2019	14,526	5,009	13,621	786	33,942
2020	14,818	5,149	13,983	813	34,763
2021	15,116	5,292	14,354	841	35,603
Thereafter	101,010	48,801	121,927	7,190	278,928
	$173,677	$73,864	$190,074	$10,879	$448,494

b. Research Collaboration and Licensing Agreements

As part of the Company's research and development efforts, the Company enters into research collaboration and licensing agreements with other companies and universities. These agreements contain varying terms and provisions which include fees to be paid by the Company, services to be provided, and license rights to certain proprietary technology developed under the agreements. Some of these agreements may require the Company to pay additional amounts upon the achievement of various development and commercial milestones, contingent upon the occurrence of various future events. Additionally, some of the agreements contain provisions which require the Company to pay royalties, as defined, at rates that range from 0.5% to 16.5%, in the event the Company sells or licenses any proprietary products developed under the respective agreements. The Company also has contingent reimbursement obligations to its collaborators Sanofi and Bayer once the applicable collaboration becomes profitable. See Note 3.

In December 2011, the Company and Genentech, a member of the Roche Group, entered into a Non-Exclusive License and Partial Settlement Agreement (the "Original Genentech Agreement") that covered making, using, and selling EYLEA for the prevention of human eye diseases and disorders in the United States, and ended the litigation relating to those matters. Pursuant to the Original Genentech Agreement, the Company received a non-exclusive license to certain patents relating to VEGF receptor proteins, known as the Davis-Smyth patents, and other technology patents. The Original Genentech Agreement provided for the Company to make payments to Genentech based on U.S. sales of EYLEA commencing upon FDA approval of EYLEA in November 2011 through May 7, 2016. The Company made a one-time, non-refundable $60.0 million payment during 2012 upon cumulative U.S. sales of EYLEA reaching $400.0 million, and was obligated to pay royalties of 4.75% on cumulative U.S. sales of EYLEA between $400.0 million and $3.0 billion and 5.5% on any cumulative U.S sales of EYLEA over $3.0 billion. As the Company recorded net product sales of EYLEA, the Company recognized expense in connection with the Genentech Agreement using a blended mid-single digit royalty rate that reflected both the $60.0 million payment and the royalties payable on cumulative sales and that was based upon the Company's estimate of cumulative EYLEA sales through May 7, 2016.

Effective May 17, 2013, the Company entered into an Amended and Restated Non-Exclusive License and Settlement Agreement with Genentech (the "Amended Genentech Agreement"), which amended the Original Genentech Agreement to include all sales of EYLEA worldwide and ended the litigation relating to those matters. Under the Amended Genentech Agreement, the Company received a worldwide non-exclusive license to the Davis-Smyth patents, and certain other patents, owned or co-owned by Genentech for the prevention or treatment of eye diseases and eye disorders in a human through administration of EYLEA to the eye. Under the Amended Genentech Agreement, the Company was obligated to make payments to Genentech based on sales of EYLEA in the United States, and EYLEA manufactured in the United States and sold outside the United States, through May 7, 2016 using the same milestone and royalty rates as in the Original Genentech Agreement. EYLEA is sold outside the United States by affiliates of Bayer under the Company's license and collaboration agreement. All payments to Genentech under the Original Genentech Agreement and the Amended Genentech Agreement were made by the Company, and Bayer shared in all such payments based on the proportion of EYLEA sales outside the United States to worldwide EYLEA sales and determined consistent with the license and collaboration agreement. The Company's obligation to pay royalties pursuant to the Original Genentech Agreement and Amended Genentech Agreement terminated on May 7, 2016, when the licenses granted to the Company thereunder became fully paid up and royalty free for the duration of the remaining term of the underlying patents.

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For the years ended December 31, 2016, 2015, and 2014, the Company recorded royalty expense of $125.3 million, $247.9 million, and $169.9 million, respectively, based on product sales of commercial products under various licensing agreements (including the Genentech agreements described above).

13. Stockholders' Equity

The Company's Restated Certificate of Incorporation, as amended, provides for the issuance of up to 40 million shares of Class A Stock, par value $0.001 per share, and 320 million shares of Common Stock (increased from 160 million shares effective upon shareholder approval obtained in 2015), par value $0.001 per share. Shares of Class A Stock are convertible, at any time, at the option of the holder into shares of Common Stock on a share-for-share basis. Holders of Class A Stock have rights and privileges identical to Common Stockholders except that each share of Class A is entitled to ten votes per share, while each share of Common Stock is entitled to one vote per share. Class A Stock may only be transferred to specified Permitted Transferees, as defined. Under the Company's Restated Certificate of Incorporation, the Company's board of directors is authorized to issue up to 30 million shares of Preferred Stock, in series, with rights, privileges, and qualifications of each series determined by the board of directors.

In December 2007, Sanofi purchased 12 million newly issued, unregistered shares of the Company's Common Stock. As a condition to the closing of this transaction, Sanofi entered into an investor agreement, as amended and restated in January 2014, with the Company. Under the terms of the amended and restated investor agreement, Sanofi has three demand rights to require the Company to use all reasonable efforts to conduct a registered underwritten public offering with respect to shares of the Company's Common Stock held by Sanofi from time to time. Under the amended and restated investor agreement, Sanofi has also agreed not to dispose of any shares of the Company's Common Stock beneficially owned by Sanofi from time to time until the later of (i) December 20, 2020, and (ii) the expiration of the Antibody Discovery Agreement with Sanofi, as amended (see Note 3a) if the agreement is extended beyond December 20, 2020. These restrictions on dispositions are subject to earlier termination upon the occurrence of certain events, such as the consummation of a change-of-control transaction involving the Company or the Company's dissolution or liquidation, and certain restrictions have been imposed on the manner of sales thereafter. Further, pursuant to the amended and restated investor agreement, Sanofi is bound by certain "standstill" provisions, which contractually prohibit Sanofi from seeking to directly or indirectly exert control of the Company or acquiring more than 30% of the outstanding shares of the Company's Class A Stock and Common Stock (taken together). This prohibition will remain in place until the earliest of (i) the later of the fifth anniversaries of the expiration or earlier termination of the Company's License and Collaboration Agreement with Sanofi and the Company's ZALTRAP Agreement with Sanofi, each as amended (see Note 3a) and (ii) other specified events. Sanofi has also agreed to vote as recommended by the Company's board of directors, except that it may elect to vote proportionally with the votes cast by all of the Company's other shareholders with respect to certain change-of-control transactions, and to vote in its sole discretion with respect to liquidation or dissolution, stock issuances equal to or exceeding 20% of the outstanding shares or voting rights of the Company's Class A Stock and Common Stock (taken together), and new equity compensation plans or amendments if not materially consistent with the Company's historical equity compensation practices. The rights and restrictions under the investor agreement are subject to termination upon the occurrence of certain events.

In addition, upon Sanofi reaching 20% ownership of the Company's outstanding shares of Class A Stock and Common Stock (taken together) during 2014, the Company was required to appoint an individual agreed upon by the Company and Sanofi to the Company's board of directors. This individual is required to be independent of the Company, and not to be a current or former officer, director, employee, or paid consultant of Sanofi.

In connection with the Company's license and collaboration agreements with Bayer for the joint development and commercialization outside the United States of antibody product candidates to PDGFR-beta and Ang2 (see Note 3b), Bayer is bound by certain "standstill" provisions, which contractually prohibit Bayer from seeking to influence the control of the Company or acquiring more than 20% of the Company's outstanding shares of Class A Stock and

Common Stock (taken together). With respect to each of these agreements, this prohibition will remain in place until the earliest of (i) the fifth anniversary of the expiration or earlier termination of the agreement or (ii) other specified events.

Further, pursuant to the 2016 Teva Collaboration Agreement, Teva and its affiliates are bound by certain "standstill" provisions, which contractually prohibit them from seeking to directly or indirectly exert control of the Company or acquiring more than 5% of the Company's Class A Stock and Common Stock (taken together). This prohibition will remain in place until the earliest of (i) the fifth anniversary of the expiration or earlier termination of the agreement; (ii) the Company's announcement recommending acceptance by the Company's shareholders of a tender offer or exchange offer that, if consummated, would constitute a change of control involving the Company; (iii) the public announcement of any definitive agreement providing for a change of control

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involving the Company; (iv) the acquisition of more than 30% of the voting power of the Company's then outstanding Class A Stock and Common Stock (taken together); (v) the date of any issuance of shares of capital stock by the Company that would result in another party having more than 10% of the voting power of the Company's then outstanding Class A Stock and Common Stock (taken together) unless such party enters into a standstill agreement containing certain terms substantially similar to the standstill obligations of Teva; or (vi) other specified events, such as a liquidation or dissolution of the Company.

In October 2011, the Company completed a private placement of $400.0 million aggregate principal amount of Notes, which were convertible into shares of the Company's Common Stock. In connection with the offering of the Notes in October 2011, the Company entered into convertible note hedge and warrant transactions. During 2016, 2015, and 2014, the Company elected to settle Notes which were surrendered for conversion through a combination of cash, in an amount equal to the principal amount of the converted Notes, and shares of the Company's Common Stock in respect of any amounts due in excess thereof. A portion of the settlement consideration provided to the Note holders was allocated to the reacquisition of the equity component of the Notes. In addition, as a result of the Note conversions, the Company exercised a proportionate amount of its convertible note hedges, for which the Company received shares of Common Stock. The shares received were recorded as Treasury Stock, at cost. See Note 11.

During 2016, 2015, and 2014, the Company entered into agreements and made payments to reduce the number of warrants held by warrant holders. In addition, in November 2014, the Company entered into an amendment agreement with a warrant holder whereby the parties agreed to reduce a portion of the number of warrants held by the warrant holder. Given that the November 2014 amendment agreement contained a conditional obligation that required settlement in cash, and the Company's obligation was indexed to the Company's share price, the Company reclassified the estimated fair value of the warrants from additional paid-in capital to a liability in November 2014. See Note 11.

14. Long-Term Incentive Plans

During 2000, the Company established the Regeneron Pharmaceuticals, Inc. 2000 Long-Term Incentive Plan which, as amended and restated and approved by the Company's shareholders (the "2000 Incentive Plan"), provided for the issuance of up to 35,397,043 shares of Common Stock in respect of awards, in addition to any shares subject to awards that were returned to the 2000 Incentive Plan upon expiration, forfeiture, surrender, exchange, cancellation, or termination of previously granted awards.

During 2014, the Company established, and the Company's shareholders approved, the Regeneron Pharmaceuticals, Inc. 2014 Long-Term Incentive Plan (the "2014 Incentive Plan"). As of the shareholder approval date, the 2014 Incentive Plan provides for the issuance of up to 16,485,333 shares of Common Stock in respect of awards (including 4,485,333 shares of Common Stock rolled over into the 2014 Incentive Plan from the 2000 Incentive Plan), which were registered with the Securities and Exchange Commission, in addition to any shares subject to awards under the 2000 Incentive Plan or the 2014 Incentive Plan that are added to the pool of shares available for grant under the 2014 Incentive Plan upon the expiration, forfeiture, surrender, exchange, cancellation, or termination of previously granted awards. Employees of the Company, including officers, and nonemployees, including consultants and nonemployee members of the Company's board of directors (collectively, "Participants"), may receive awards as determined by a committee of independent directors ("Committee").

The awards that may be made under the 2014 Incentive Plan include: (a) Incentive Stock Options ("ISOs") and Nonqualified Stock Options, (b) shares of Restricted Stock, (c) shares of Phantom Stock, (d) Stock Bonuses, and (e) Other Awards.

Stock Option awards grant Participants the right to purchase shares of Common Stock at prices determined by the Committee; however, in the case of an ISO, the option exercise price may not be less than the fair market value of a share of Common Stock on the date the option is granted. Options vest over a period of time determined by the Committee, generally on a pro rata basis over a three- to four-year period. The Committee also determines the expiration date of each option; however, no ISO is exercisable more than ten years after the date of grant. The maximum term of options that have been awarded under the 2000 Incentive Plan or 2014 Incentive Plan (collectively, the "Incentive Plans") is ten years.

Restricted Stock awards grant Participants shares of restricted Common Stock or allow Participants to purchase such shares at a price determined by the Committee. Such shares are nontransferable for a period determined by the Committee ("vesting period"). Should employment terminate, as specified in the Incentive Plans, except as determined by the Committee in its discretion and subject to the applicable Incentive Plan documents, the ownership of any unvested Restricted Stock will be transferred to the Company. In such an event, the Company will be obligated to repay the Participant the amount, if any, paid by the Participant for such shares. In addition, if the Company requires a return of the Restricted Stock, it also has the right to require a return of all dividends paid on such shares.

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Phantom Stock awards provide the Participant the right to receive, within 30 days of the date on which the share vests, an amount, in cash and/or shares of Common Stock as determined by the Committee, equal to the sum of the fair market value of a share of Common Stock on the date such share of Phantom Stock vests and the aggregate amount of cash dividends paid with respect to a share of Common Stock during the period from the grant date of the share of Phantom Stock to the date on which the share vests. Stock Bonus awards are bonuses payable in shares of Common Stock which are granted at the discretion of the Committee.

Other Awards are other forms of awards which are valued based on the Common Stock. Subject to the provisions of the 2014 Incentive Plan, the terms and provisions of such Other Awards are determined solely on the authority of the Committee.

The Incentive Plans contain provisions that allow for the Committee to provide for the immediate vesting of awards upon a change in control of the Company, as defined in the Plans.

As of December 31, 2016, there were 6,408,989 shares available for future grants under the 2014 Incentive Plan. No additional awards may be made under the 2000 Incentive Plan.

a. Stock Options

Transactions involving stock option awards during 2016 under the Company's Incentive Plans are summarized in the table below.

Stock Options:		Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Intrinsic Value
Outstanding as of December 31, 2015		23,165,769	$ 236.75		
2016:	Granted	4,201,978	$ 386.44		
	Forfeited	(468,798)	$ 398.57		
	Expired	(20,645)	$ 420.04		
	Exercised	(1,742,277)	$ 76.79		
Outstanding as of December 31, 2016		25,136,027	$ 269.69	6.66	$3,399,815
Vested and expected to vest as of December 31, 2016		24,598,430	$ 266.16	6.60	$3,397,437
Exercisable as of December 31, 2016		15,140,287	$ 166.96	5.19	$3,299,296

The Company satisfies stock option exercises with newly issued shares of the Company's Common Stock. The total intrinsic value of stock options exercised during 2016, 2015, and 2014 was $550.4 million, $1,031.6 million, and $1,081.2 million, respectively. The intrinsic value represents the amount by which the market price of the underlying stock exceeds the exercise price of an option.

Explanation of Responses:

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The Company grants stock options with exercise prices that are equal to or greater than the average market price of the Company's Common Stock on the date of grant ("Market Price"). The table below summarizes the weighted-average exercise prices and weighted-average grant-date fair values of options issued during the years ended December 31, 2016, 2015, and 2014. The fair value of each option granted under the Company's Incentive Plans during these periods was estimated on the date of grant using the Black-Scholes option-pricing model.

	Number of Options Granted	Weighted-Average Exercise Price	Weighted-Average Fair Value
2016:			
Exercise price equal to Market Price	4,201,978	$ 386.44	$ 126.68
2015:			
Exercise price equal to Market Price	4,495,487	$ 537.29	$ 181.65
2014:			
Exercise price equal to Market Price	3,913,368	$ 385.33	$ 140.38

For the years ended December 31, 2016, 2015, and 2014, the Company recognized $546.0 million, $443.7 million, and $306.1 million, respectively, of non-cash stock-based compensation expense related to non-performance based stock option awards. As of December 31, 2016, there was $888.0 million of stock-based compensation cost related to outstanding non-performance based stock options, net of estimated forfeitures, which had not yet been recognized. The Company expects to recognize this compensation cost over a weighted-average period of 1.9 years.

For the year ended December 31, 2014, the Company recognized $4.1 million of non-cash stock-based compensation expense related to performance-based options. The Company has not issued any performance-based options since 2011, and such options became fully vested during 2014.

Fair Value Assumptions:

The following table summarizes the weighted average values of the assumptions used in computing the fair value of option grants during 2016, 2015, and 2014.

	2016	2015	2014
Expected volatility	34 %	35 %	39 %
Expected lives from grant date	5.1 years	5.1 years	5.2 years
Expected dividend yield	0 %	0 %	0 %
Risk-free interest rate	1.84 %	1.68 %	1.62 %

Expected volatility has been estimated based on actual movements in the Company's stock price over the most recent historical periods equivalent to the options' expected lives. Expected lives are principally based on the Company's historical exercise experience with previously issued employee and board of directors' option grants. The expected dividend yield is zero as the Company has never paid dividends and does not currently anticipate paying any in the foreseeable future. The risk-free interest rates are based on quoted U.S. Treasury rates for securities with maturities approximating the options' expected lives.

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b. Restricted Stock

A summary of the Company's activity related to Restricted Stock awards during 2016 is summarized below:

Restricted Stock:		Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of December 31, 2015		541,700	$ 133.96
2016:	Granted	16,750	$ 385.84
	Vested	(11,590)	$ 125.38
	Forfeited	(40)	$ 237.68
Outstanding as of December 31, 2016		546,820	$ 141.85

The Company recognized non-cash stock-based compensation expense from Restricted Stock awards of $13.9 million, $15.3 million, and $11.5 million in 2016, 2015, and 2014, respectively. As of December 31, 2016, there was $26.0 million of stock-based compensation cost related to unvested shares of Restricted Stock which had not yet been recognized. The Company expects to recognize this compensation cost over a weighted-average period of 1.2 years.

15. Employee Savings Plans

The Company maintains the Regeneron Pharmaceuticals, Inc. 401(k) Savings Plan (the "Savings Plan"). The terms of the Savings Plan, as amended and restated, allow U.S. employees (as defined by the Savings Plan) to contribute to the Savings Plan a percentage of their compensation. In addition, the Company may make discretionary contributions ("Contribution"), as defined, to the accounts of participants under the Savings Plan. The Company recognized $17.7 million, $15.4 million, and $13.1 million of Contribution expense in 2016, 2015, and 2014, respectively.

In 2014, the Regeneron Ireland Pension Plan (the "Ireland Plan"), a defined contribution occupational pension plan which covers all eligible Ireland-based employees (as defined by the Ireland Plan), was established. Contributions to the Ireland Plan are comprised of two components: (i) a minimum mandatory employee and employer contribution rate, and (ii) a matching scheme, whereby the Company will match employee contributions up to a certain percentage. Employees can make additional voluntary contributions to the Ireland Plan. Expenses related to the Company's contributions to the Ireland Plan were not material during 2016, 2015, and 2014.

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16. Income Taxes

The Company is subject to U.S. federal, state, and foreign income taxes. Components of income before income taxes consist of the following:

	Year Ended December 31,		
	2016	2015	2014
United States	$1,650,959	$1,665,087	$1,101,446
Foreign	(321,144)	(439,990)	(340,211)
	$1,329,815	$1,225,097	$761,235

Components of income tax expense consist of the following:

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$786,964	$686,561	$437,038
State	8,769	28,568	28,718
Foreign	(1,362)	4,004	2,879
Total current tax expense	794,371	719,133	468,635
Deferred:			
Federal	(377,368)	(119,849)	(62,932)
State	13,431	(3,768)	18,891
Foreign	3,859	(6,475)	(1,485)
Total deferred tax (benefit) expense	(360,078)	(130,092)	(45,526)
	$434,293	$589,041	$423,109

In 2015 and 2014, the Company utilized $405.3 million and $439.3 million of excess tax benefits in connection with stock option exercises, which were credited to additional paid-in capital as realized. The Company elected to early adopt ASU 2016-09 during the second quarter of 2016. Consequently, in 2016, the Company recorded excess tax benefits of $144.8 million within income tax expense. See Note 1. "Business Overview and Summary of Significant Accounting Policies - Recently Issued Accounting Standards."

The Company also recorded an income tax benefit in its Statement of Comprehensive Income of $3.3 million during the year ended December 31, 2016 and an income tax provision of $24.9 million and $27.1 million during the years ended December 31, 2015 and 2014, respectively, primarily related to unrealized gains (losses) on available-for-sale marketable securities.

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A reconciliation of the U.S. statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,		
	2016	2015	2014
U.S. federal statutory tax rate	35.0 %	35.0 %	35.0 %
Stock-based compensation	(10.9)	—	—
State and local income taxes	0.3	1.0	2.4
Change in state effective rate	1.0	(0.1)	2.9
Foreign income tax rate differential	8.8	12.2	15.8
Income tax credits	(1.2)	(1.6)	(5.1)
Non-deductible Branded Prescription Drug Fee	1.9	2.0	2.8
Domestic production activities deduction	(2.8)	(3.2)	—
Other permanent differences	0.6	2.8	1.8
Effective income tax rate	32.7 %	48.1 %	55.6 %

In 2016, the difference between the U.S. federal statutory rate of 35% and the Company's effective tax rate of 32.7% was primarily attributable to the tax benefit associated with stock-based compensation, the domestic manufacturing deduction, and the federal tax credit for research activities, offset by the negative impact of losses incurred in foreign jurisdictions with rates lower than the U.S. federal statutory rate and the non-tax deductible Branded Prescription Drug Fee.

In 2015, the difference between the U.S. federal statutory rate of 35% and the Company's effective tax rate of 48.1% was primarily attributable to losses incurred in foreign jurisdictions with rates lower than the U.S. federal statutory rate, partly offset by the positive impact of the domestic manufacturing deduction.

In 2014, the difference between the U.S. federal statutory rate of 35% and the Company's effective tax rate of 55.6% was primarily attributable to losses incurred in foreign jurisdictions with rates lower than the U.S. federal statutory rate and the non-deductible Branded Prescription Drug Fee, partly offset by the positive impact of the federal tax credit for increased research activities and state income tax credits.

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	As of December 31,	
	2016	2015
Deferred tax assets:		
Net operating loss carryforward	$137	$140
Fixed and intangible assets	21,139	—
Deferred revenue	214,587	51,766
Deferred compensation	515,984	349,508
Capitalized research and development costs	2,492	7,725
Accrued expenses	37,188	47,520
Other	46,471	26,580
	837,998	483,239
Valuation allowance	(3,420)	—
Total deferred tax assets	834,578	483,239
Deferred tax liabilities:		
Unrealized gains/losses on marketable securities	—	(3,280)
Fixed assets and intangible assets	—	(5,559)
Other	(9,275)	(12,455)
Total deferred tax liabilities	(9,275)	(21,294)
Net deferred tax assets	$825,303	$461,945

The Company's 2012 through 2015 federal income tax returns remain open to examination by the IRS. The Company's 2012 federal income tax return is currently under audit by the IRS. The Company's state income tax returns from 2013 to 2015 remain open to examination. The Department of Revenue of the Commonwealth of Pennsylvania is currently auditing the Company's 2013 and 2014 tax returns. The United States and many states generally have statutes of limitation ranging from 3 to 5 years; however, those statutes could be extended due to the Company's net operating loss and tax credit carryforward positions in a number of the Company's tax jurisdictions. In general, tax authorities have the ability to review income tax returns for loss periods in which the statute of limitation has previously expired to adjust the net operating loss carryforward or tax credits generated in those years.
The following table summarizes the gross amounts of unrecognized tax benefits. The amount of unrecognized tax benefits that, if settled, would impact the effective tax rate is $107.2 million, $102.1 million, and $51.2 million as of December 31, 2016, 2015, and 2014, respectively.

	2016	2015	2014
Balance as of January 1	$116,572	$57,615	$26,627
Gross increases related to current year tax positions	45,575	59,909	27,538
Gross (decreases) increases related to prior year tax positions	(42,284)	(952)	6,464
Gross decrease due to settlements, recapture, filed returns, and lapse of statutes of limitation	(2,697)	—	(3,014)
Balance as of December 31	$117,166	$116,572	$57,615

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In 2016 and 2015, the increases in unrecognized tax benefits related primarily to the Company's calculation of certain tax credits and other items related to the Company's international operations. In 2014, the decreases in unrecognized tax benefits resulted from the settlement of the IRS audit of the 2011 tax year and the New York State audit of the 2009 to 2011 tax years, as well as the reduction in the New York state income tax rate. In 2016, the Company accrued interest of $3.3 million related to its unrecognized tax benefits. In 2015 and 2014, accrued interest related to unrecognized tax benefits recorded by the Company was not material. The Company believes that it is reasonably possible that its unrecognized tax benefits as of December 31, 2016 may decrease by up to $22.3 million within the next twelve months related to the resolution of state tax exposures.

17. Legal Matters

From time to time, the Company is a party to legal proceedings in the course of the Company's business. Costs associated with the Company's involvement in legal proceedings are expensed as incurred. The outcome of any such proceedings, regardless of the merits, is inherently uncertain. If the Company were unable to prevail in any such proceedings, its consolidated financial position, results of operations, and future cash flows may be materially impacted.

Proceedings Relating to '287 Patent, '163 Patent, and '018 Patent

The Company is a party to patent infringement litigation initiated by the Company involving its European Patent No. 1,360,287 (the "'287 Patent"), its European Patent No. 2,264,163 (the "'163 Patent"), and its U.S. Patent No. 8,502,018 (the "'018 Patent"). Each of these patents concerns genetically engineered mice capable of producing chimeric antibodies that are part human and part mouse. Chimeric antibody sequences can be used to produce high-affinity fully human monoclonal antibodies. In these proceedings, the Company claims infringement of several claims of the '287 Patent, the '163 Patent, and the '018 Patent (as applicable), and seeks, among other types of relief, an injunction and an account of profits in connection with the defendants' infringing acts, which may include, among other things, the making, use, keeping, sale, or offer for sale of genetically engineered mice (or certain cells from which they are derived) that infringe one or more claims of the '287 Patent, the '163 Patent, and the '018 Patent (as applicable). At this time, the Company is not able to predict the outcome of, or estimate possible gain or a range of possible loss, if any, related to, these proceedings.

Proceedings Relating to Praluent (alirocumab) Injection

As described in greater detail below, the Company is currently a party to patent infringement actions initiated by Amgen Inc. against the Company and Sanofi (and/or the Company's and Sanofi's respective affiliated entities) in a number of jurisdictions relating to Praluent, which the Company is jointly developing and commercializing with Sanofi.

In the United States, Amgen has asserted a number of U.S. patents, which were subsequently narrowed to U.S. Patent Nos. 8,829,165 (the "'165 Patent") and 8,859,741 (the "'741 Patent"), and seeks a permanent injunction to prevent the Company and the Sanofi defendants from manufacturing, using, offering to sell, or selling within the United States (as well as importing into the United States) (collectively, "Commercializing") Praluent. Amgen also seeks a judgment of patent infringement of the asserted patents, monetary damages (together with interest), costs and expenses of the lawsuits, and attorneys' fees. A jury trial in this litigation was held in the United States District Court for the District of Delaware from March 8 to March 16, 2016. During the course of the trial, the court ruled as a matter of law in favor of Amgen that the asserted patent claims were not obvious, and in favor of the Company and the Sanofi defendants that there was no willful infringement of the asserted patent claims by the Company or the Sanofi defendants. On March 16, 2016, the jury returned a verdict in favor of Amgen, finding that the asserted claims of the '165 and '741 Patents were not invalid based on either a lack of written description or a lack of enablement. On January 3, 2017, the court issued a final opinion and judgment, denying the Company and the Sanofi defendants' motions for new trial and judgment as a matter of law. The court also denied as moot Amgen's motion to strike the Company and the Sanofi defendants' request to obtain a judgment as a matter of law, which allows the U.S. Court of Appeals for the Federal

Circuit to address the Company and the Sanofi defendants' patent invalidity arguments on appeal. On January 12, 2017, the Company and the Sanofi defendants filed a notice of appeal with the U.S. Court of Appeals for the Federal Circuit. On January 18, 2017, the U.S. Court of Appeals for the Federal Circuit ordered an expedited briefing schedule of the appeal on the merits, pursuant to which the briefing is scheduled to be completed no later than March 31, 2017. On January 31, 2017, Amgen filed a motion with the United States District Court for the District of Delaware to amend the court's final judgment to include an award of supplemental damages (including interest) and enhancement of such damages following the resolution of the appeal.

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On March 23 and March 24, 2016, the United States District Court for the District of Delaware held a permanent injunction hearing to determine whether Regeneron and the Sanofi defendants should be prohibited from Commercializing Praluent in the United States. On January 5, 2017, the court granted the permanent injunction but delayed its imposition for 30 days (subsequently extended to 45 days) from the date of grant (i.e., until February 21, 2017). On January 13, 2017, the Company and the Sanofi defendants filed an emergency motion for stay of the permanent injunction pending appeal with the U.S. Court of Appeals for the Federal Circuit; and, on February 8, 2017, the court granted the stay pending appeal.

On July 25, 2016, Amgen filed a lawsuit against Regeneron, Sanofi-Aventis Groupe S.A., Sanofi-Synthelabo Limited, Aventis Pharma Limited, Sanofi Winthrop Industrie S.A., and Sanofi-Aventis Deutschland GmbH in the English High Court of Justice, Chancery Division, Patents Court, in London, seeking a declaration of infringement of Amgen's European Patent No. 2,215,124 (the "'124 Patent"), which pertains to PCSK9 monoclonal antibodies, by Praluent. The lawsuit also seeks a permanent injunction, damages, an accounting of profits, and costs and interest. On February 8, 2017, the court temporarily stayed this litigation on terms mutually agreed by the parties.

Also on July 25, 2016, Amgen filed a lawsuit for infringement of the '124 Patent against Regeneron, Sanofi-Aventis Groupe S.A., Sanofi Winthrop Industrie S.A., and Sanofi-Aventis Deutschland GmbH in the Regional Court of Düsseldorf, Germany, seeking a permanent injunction, an accounting of marketing activities, a recall of Praluent and its removal from distribution channels, and damages. Oral hearing on this infringement lawsuit is currently scheduled for October 19, 2017.

On September 26, 2016, Amgen filed a lawsuit for infringement of the '124 Patent in the Tribunal de grande instance in Paris, France against Regeneron, Sanofi-Aventis Groupe S.A., and Sanofi Winthrop Industrie. Amgen is seeking the prohibition of allegedly infringing activities with a €10,000 penalty per drug unit of Praluent produced in violation of the court order sought by Amgen; an appointment of an expert for the assessment of damages; disclosure of technical (including supply-chain) and accounting information to the expert and the court; provisional damages of €10.0 million (which would be awarded on an interim basis pending final determination); reimbursement of costs; publication of the ruling in three newspapers; and provisional enforcement of the decision to be issued, which would ensure enforcement of the decision (including any provisional damages) pending appeal. Amgen is not seeking a preliminary injunction in this proceeding at this time.

At this time, the Company is not able to predict the outcome of, or estimate a range of possible loss, if any, related to these proceedings.

Proceedings Relating to Patents Owned by Genentech and City of Hope

On July 27, 2015, the Company and Sanofi-Aventis U.S. LLC ("Sanofi-Aventis") filed a complaint in the United States District Court for the Central District of California (Western Division) seeking a declaratory judgment of invalidity, as well as non-infringement by the manufacture, use, sale, offer of sale, or importation of Praluent, of U.S. Patent No. 7,923,221 (the "'221 Patent") jointly owned by Genentech, Inc. ("Genentech") and City of Hope relating to the production of recombinant antibodies by host cells. On the same day, the Company and Sanofi-Aventis initiated an inter partes review in the United States Patent and Trademark Office ("USPTO") seeking a declaration of invalidity of certain claims of U.S. Patent No. 6,331,415 (the "'415 Patent" and, together, with the "221 Patent", the "Cabilly Patents") jointly owned by Genentech and City of Hope relating to the production of recombinant antibodies by host cells. On February 5, 2016, the USPTO instituted an inter partes review of the validity of most of the patent claims of the '415 Patent for which review had been requested. On August 18, 2016, Regeneron and Sanofi-Aventis entered into a License and Settlement Agreement with Genentech and City of Hope that resolved all outstanding issues concerning the Cabilly Patents in the above-referenced litigation and inter partes review proceeding, resulting in a joint stipulation of dismissal being entered in the court and the USPTO. Under the agreement, Regeneron has been granted a license to the Cabilly Patents to make, use, and sell Praluent and all other antibody products under development at the time of the settlement.

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Proceedings Relating to Shareholder Derivative Claims

On December 30, 2015, an alleged shareholder filed a shareholder derivative complaint in the New York Supreme Court, naming the current and certain former non-employee members of the Company's board of directors, the Chairman of the board of directors, the Company's Chief Executive Officer, and the Company's Chief Scientific Officer as defendants and Regeneron as a nominal defendant. The complaint asserts that the individual defendants breached their fiduciary duties and were unjustly enriched when they approved and/or received allegedly excessive compensation in 2013 and 2014. The complaint seeks damages in favor of the Company for the alleged breaches of fiduciary duties and unjust enrichment; changes to Regeneron's corporate governance and internal procedures; invalidation of the 2014 Incentive Plan with respect to the individual defendants' compensation and a shareholder vote regarding the individual defendants' equity compensation; equitable relief, including an equitable accounting with disgorgement; and award of the costs of the action, including attorneys' fees. On March 2, 2016, the defendants filed a motion to dismiss the shareholder derivative complaint. On August 16, 2016, the court heard oral argument on defendants' motion to dismiss.

On or about December 15, 2015, the Company received a shareholder litigation demand upon the Company's board of directors made by a purported Regeneron shareholder. The demand asserts that the current and certain former non-employee members of the board of directors and the Chairman of the board of directors excessively compensated themselves in 2013 and 2014. The demand requests that the board of directors investigate and bring legal action against these directors for breach of fiduciary duty, unjust enrichment, and corporate waste, and implement internal controls and systems designed to prohibit and prevent similar actions in the future. The Company's board of directors, working with outside counsel, investigated the allegations in the demand and the shareholder derivative complaint, and has determined to defer its decision on the demand until the court rules on the pending motion to dismiss the shareholder derivative complaint, as discussed above.

At this time, the Company is not able to predict the outcome of, or estimate a range of possible loss, if any, relating to these matters.

Department of Justice Investigation

In January 2017, the Company received a subpoena from the U.S. Attorney's Office for the District of Massachusetts requesting documents relating to its support of 501(c)(3) organizations that provide financial assistance to patients; documents concerning its provision of financial assistance to patients with respect to products sold or developed by Regeneron (including EYLEA, Praluent, ARCALYST, and ZALTRAP); and certain other related documents and communications. The Company is cooperating with this investigation. The Company cannot predict the outcome or duration of these investigations or any other legal proceedings or any enforcement actions or other remedies that may be imposed on the Company arising out of these investigations.

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18. Net Income Per Share

The Company's basic net income per share amounts have been computed by dividing net income by the weighted average number of shares of Common Stock and Class A Stock outstanding. Net income per share is presented on a combined basis, inclusive of Common Stock and Class A Stock outstanding, as each class of stock has equivalent economic rights. Diluted net income per share includes the potential dilutive effect of other securities as if such securities were converted or exercised during the period, when the effect is dilutive. The calculations of basic and diluted net income per share are as follows:

	Year Ended December 31,		
	2016	2015	2014
Net income - basic	$895,522	$636,056	$338,126
Effect of dilutive securities:			
Convertible senior notes - interest expense related to contractual coupon interest rate and amortization of discount and note issuance costs	397	—	—
Net income - diluted	$895,919	$636,056	$338,126
(Shares in thousands)			
Weighted average shares - basic	104,719	103,061	100,612
Effect of dilutive securities:			
Stock options	10,177	9,446	9,440
Restricted stock	474	477	425
Convertible senior notes	61	—	—
Warrants	936	2,246	2,936
Dilutive potential shares	11,648	12,169	12,801
Weighted average shares - diluted	116,367	115,230	113,413
Net income per share - basic	$8.55	$6.17	$3.36
Net income per share - diluted	$7.70	$5.52	$2.98

Shares which have been excluded from diluted per share amounts because their effect would have been antidilutive, include the following:

	Year Ended December 31,		
(Shares in thousands)	2016	2015	2014
Stock options	8,041	1,343	1,470
Restricted stock	19	—	—
Convertible senior notes	—	994	4,247

19. Statement of Cash Flows

Supplemental disclosure of non-cash investing and financing activities:

Included in accounts payable and accrued expenses as of December 31, 2016, 2015, and 2014 were $28.2 million, $50.7 million, and $56.2 million, respectively, of accrued capital expenditures.

Included in accounts payable and accrued expenses as of December 31, 2014 was $59.8 million related to the Company's payment obligation for a reduction in the number of warrants based on a warrant holder closing out a portion of its hedge position (see Note 11). Additionally, included within other current liabilities as of December 31, 2014 was $87.5 million in connection with the estimated fair value of the remaining warrant liability (see Note 11). There were no such liabilities recorded in connection with warrants as of December 31, 2016 and 2015.

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The Company recognized an additional facility lease obligation of $16.8 million, $26.0 million, and $127.8 million during 2016, 2015, and 2014, respectively, in connection with capitalizing, on the Company's books, the landlord's costs of constructing new facilities that the Company has leased (see Note 12a). In addition, during 2016, the Company recognized capital lease obligations of $138.1 million in connection with the modification of the Company's Tarrytown Leases (see Note 12a).

20. Unaudited Quarterly Results

Summarized quarterly financial data for the years ended December 31, 2016 and 2015 are set forth in the following tables.

	First Quarter Ended March 31, 2016*	Second Quarter Ended June 30, 2016	Third Quarter Ended September 30, 2016	Fourth Quarter Ended December 31, 2016
	(Unaudited)			
Revenues	$1,200,849	$1,212,629	$1,220,122	$1,226,827
Net income	$181,385	$196,218	$264,804	$253,115
Net income per share - basic	$1.74	$1.88	$2.53	$2.41
Net income per share - diluted	$1.59	$1.69	$2.27	$2.19

	First Quarter Ended March 31, 2015	Second Quarter Ended June 30, 2015	Third Quarter Ended September 30, 2015	Fourth Quarter Ended December 31, 2015
	(Unaudited)			
Revenues	$869,612	$998,617	$1,137,422	$1,098,077
Net income	$76,021	$194,643	$210,398	$154,994
Net income per share - basic	$0.74	$1.89	$2.04	$1.49
Net income per share - diluted	$0.66	$1.69	$1.82	$1.34

* Due to the adoption of ASU 2016-09, the Company revised its net income from the amounts originally reported for the quarterly period ended March 31, 2016 to include a $15.6 million income tax benefit, which was originally recorded as additional paid-in capital.