AMGEN INC
Form 10-Q
May 11, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 000-12477

Amgen Inc.

(Exact name of registrant as specified in its charter)

Delaware	**95-3540776**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Amgen Center Drive, Thousand Oaks, California	**91320-1799**
(Address of principal executive offices)	(Zip Code)

(805) 447-1000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨ (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No x

As of May 4, 2009, the registrant had 1,012,372,068 shares of common stock, $0.0001 par value, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

AMGEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

(Unaudited)

	Three months ended March 31,	
	2009	**2008 Revised** *
Revenues:		
Product sales	$ 3,238	$ 3,537
Other revenues	70	76
Total revenues	3,308	3,613
Operating expenses:		
Cost of sales (excludes amortization of acquired intangible assets presented below)	477	546
Research and development	633	694
Selling, general and administrative	798	874
Amortization of acquired intangible assets	74	74
Other charges	5	10
Total operating expenses	1,987	2,198
Operating income	1,321	1,415
Interest and other income (expense), net	(89)	(35)
Income before income taxes	1,232	1,380
Provision for income taxes	213	280
Net income	$ 1,019	$ 1,100
Earnings per share:		
Basic	$ 0.99	$ 1.01
Diluted	$ 0.98	$ 1.01

Shares used in calculation of earnings per share:		
Basic	1,032	1,089
Diluted	1,037	1,092

See accompanying notes.

* See Note 1 for discussion of required retrospective adoption of a new accounting standard applicable to our convertible debt.

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AMGEN INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)

(Unaudited)

	March 31, 2009	December 31, 2008 Revised *
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,777	$ 1,774
Marketable securities	7,601	7,778
Trade receivables, net	2,009	2,073
Inventories	2,080	2,075
Other current assets	1,609	1,521
Total current assets	16,076	15,221
Property, plant and equipment, net	5,804	5,879
Intangible assets, net	2,882	2,988
Goodwill	11,336	11,339
Other assets	1,282	1,000
	$ 37,380	$ 36,427
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 687	$ 504
Accrued liabilities	2,986	3,382
Current portion of other long-term debt	1,000	1,000
Total current liabilities	4,673	4,886
Convertible notes	4,320	4,257
Other long-term debt	6,088	4,095
Other non-current liabilities	2,332	2,304
Contingencies		
Stockholders equity:		
Common stock and additional paid-in capital; $0.0001 par value; 2,750 shares authorized; outstanding - 1,011 shares in 2009 and 1,047 shares in 2008	26,526	26,441
Accumulated deficit	(6,659)	(5,673)
Accumulated other comprehensive income	100	117
Total stockholders equity	19,967	20,885

	$ 37,380	$ 36,427

See accompanying notes.

* See Note 1 for discussion of required retrospective adoption of a new accounting standard applicable to our convertible debt.

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AMGEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three months ended March 31,	
	2009	**2008 Revised** *
Cash flows from operating activities:		
Net income	$ 1,019	$ 1,100
Depreciation and amortization	267	266
Stock-based compensation expense	59	59
Other items, net	-	(7)
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables, net	64	(93)
Inventories	22	18
Other current assets	(123)	35
Accounts payable	44	118
Accrued income taxes	176	112
Other accrued liabilities	(668)	(323)
Deferred revenue	(1)	297
Net cash provided by operating activities	859	1,582
Cash flows from investing activities:		
Purchases of property, plant and equipment	(117)	(170)
Cash paid for acquisitions, net of cash acquired	-	(48)
Purchases of marketable securities	(3,580)	(1,468)
Proceeds from sales of marketable securities	3,426	2,126
Proceeds from maturities of marketable securities	425	208
Other	(15)	49
Net cash provided by investing activities	139	697
Cash flows from financing activities:		
Repurchases of common stock	(1,997)	-
Net proceeds from issuance of debt	1,980	-
Net proceeds from issuance of common stock in connection with the Company s equity award programs	21	28
Other	1	(7)
Net cash provided by financing activities	5	21
Increase in cash and cash equivalents	1,003	2,300
Cash and cash equivalents at beginning of period	1,774	2,024

Cash and cash equivalents at end of period	$ 2,777	$ 4,324

See accompanying notes.

* See Note 1 for discussion of required retrospective adoption of a new accounting standard applicable to our convertible debt.

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AMGEN INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

(Unaudited)

1. Summary of significant accounting policies

Business

Amgen Inc. is a global biotechnology company that discovers, develops, manufactures and markets human therapeutics based on advances in cellular and molecular biology.

Basis of presentation

The financial information for the three months ended March 31, 2009 and 2008 is unaudited but includes all adjustments (consisting of only normal recurring adjustments, unless otherwise indicated), which Amgen Inc., including its subsidiaries (referred to as Amgen, the Company, we, our or us), considers necessary for a fair presentation of the results of operations for those periods. Interim results are not necessarily indicative of results for the full fiscal year.

The condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

Change in method of accounting for convertible debt instruments

Effective January 1, 2009, we adopted Financial Accounting Standards Board s (FASB) Staff Position (FSP) No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1) and, as required by this new standard, we retrospectively applied this change in accounting to all prior periods for which we had applicable outstanding convertible debt. Under this method of accounting, the debt and equity components of our convertible notes are bifurcated and accounted for separately. The equity components of our convertible notes, including our 2011 Convertible Notes, 2013 Convertible Notes and 2032 Modified Convertible Notes, are included in Common stock and additional paid-in capital in the Condensed Consolidated Balance Sheets, with a corresponding reduction in the carrying values of these convertible notes as of the date of issuance or modification, as applicable. The reduced carrying values of our convertible notes are being accreted back to their principal amounts through the recognition of non-cash interest expense. This results in recognizing interest expense on these borrowings at effective rates approximating what we would have incurred had we issued nonconvertible debt with otherwise similar terms. See Note 2, *Change in method of accounting for convertible debt instruments* and Note 6, *Financing arrangements*.

Principles of consolidation

The condensed consolidated financial statements include the accounts of Amgen as well as its wholly owned subsidiaries. We do not have any significant interests in any variable interest entities. All material intercompany transactions and balances have been eliminated in consolidation.

Collaborative arrangements

Effective January 1, 2009, we adopted the provisions of Emerging Issues Task Force (EITF) Issue No. 07-1, *Accounting for Collaborative Agreements* (EITF 07-1). EITF 07-1 provides guidance regarding financial statement presentation and disclosure of collaborative arrangements, as defined, which include certain arrangements we have entered into regarding the research and development (R&D), manufacture and/or commercialization of products and product candidates.

Under EITF 07-1, a collaborative arrangement is defined as a contractual arrangement that involves a joint operating activity. These arrangements involve two (or more) parties who are both (i) active participants in the activity and (ii) exposed to significant risks and rewards dependent on the commercial success of the activity.

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AMGEN INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We evaluate whether an arrangement is a collaborative arrangement under EITF 07-1 at its inception based on the facts and circumstances specific to the arrangement. We reevaluate whether an arrangement qualifies or continues to qualify as a collaborative arrangement under EITF 07-1 whenever there is a change in either the roles of the participants or the participants exposure to significant risks and rewards dependent on the ultimate commercial success of the endeavor. For arrangements that are determined to be collaborative arrangements under EITF 07-1, we report costs incurred and revenue generated from transactions with third parties (that is, parties that do not participate in the arrangement) in accordance with EITF Issue No. 99-19 *Reporting Revenue Gross as a Principal versus Net as an Agent* (EITF 99-19). For those collaborative arrangements where it is determined that we are the principal participant, costs incurred and revenue generated from third parties are recorded on a gross basis in our financial statements.

The adoption of EITF 07-1 did not have a material impact on our condensed consolidated results of operations, financial position or cash flows. See Note 3, *Collaborative arrangements.*

Use of estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Fair value measurement

We adopted the provisions of the FASB s Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157) effective January 1, 2008, for its financial assets and liabilities and effective January 1, 2009, with respect to the fair value measurement requirements for non-financial assets and liabilities that are not remeasured on a recurring basis. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The adoption of SFAS 157 did not have a material impact on our condensed consolidated results of operations, financial position or cash flows.

Derivative instruments

Effective January 1, 2009, we adopted the provisions of the FASB s SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161) for our derivative instruments. SFAS 161 requires that the objectives for using derivative instruments be disclosed to better convey the purpose of derivative use in terms of the risks that we are intending to manage. This new standard also requires disclosure of how derivatives and related hedged items affect our financial statements. The adoption of SFAS 161 did not have a material impact on our condensed consolidated results of operations, financial position or cash flows. See Note 10, *Derivative instruments.*

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Inventories

Inventories are stated at the lower of cost or market. Cost, which includes amounts related to materials, labor and overhead, is determined in a manner which approximates the first-in, first-out (FIFO) method. Inventories consisted of the following (in millions):

	March 31, 2009	December 31, 2008
Raw materials	$ 120	$ 112
Work in process	1,417	1,519
Finished goods	543	444
	$ 2,080	$ 2,075

Property, plant and equipment, net

Property, plant and equipment are recorded at historical cost, net of accumulated depreciation of $4.3 billion and $4.1 billion as of March 31, 2009 and December 31, 2008, respectively.

Goodwill

Goodwill principally relates to the acquisition of Immunex Corporation (Immunex). We perform an impairment test annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable.

Product sales

Product sales primarily consist of sales of Aranesp® (darbepoetin alfa), EPOGEN® (Epoetin alfa), Neulasta® (pegfilgrastim), NEUPOGEN® (Filgrastim) and Enbrel® (etanercept).

Sales of our products are recognized when shipped and title and risk of loss have passed. Product sales are recorded net of accruals for estimated rebates, wholesaler chargebacks, discounts and other incentives (collectively sales incentives) and returns. Taxes assessed by government authorities on the sales of the Company s products, primarily in Europe, are excluded from revenues.

We have the exclusive right to sell Epoetin alfa for dialysis, certain diagnostics and all non-human, non-research uses in the United States. We sell Epoetin alfa under the brand name EPOGEN®. We granted to Ortho Pharmaceutical Corporation (which has assigned its rights under the product license agreement to Ortho Biotech Products, L.P. (Ortho Biotech)), a subsidiary of Johnson & Johnson (J&J), a license relating to Epoetin alfa for sales in the United States for all human uses except dialysis and diagnostics. This license agreement, which is perpetual, may be terminated for various reasons, including upon mutual agreement of the parties, or default. The parties are required to compensate each other for Epoetin alfa sales that either party makes into the other party s exclusive market, sometimes referred to as spillover. Accordingly, we do not recognize product sales we make into the exclusive market of J&J and do recognize the product sales made by J&J into our exclusive market. Sales in our exclusive market are derived from our sales to our customers, as adjusted for spillover. We are employing an arbitrated audit methodology to measure each party s spillover based on estimates of and subsequent adjustments thereto of third-party data on shipments to end users and their usage.

Research and development costs

R&D costs are expensed as incurred and primarily include salaries, benefits and other staff-related costs; facilities and overhead costs; clinical trial and related clinical manufacturing costs; contract services and other outside costs; information systems costs and amortization of acquired technology used in R&D with alternative future uses. R&D expenses also include costs incurred under R&D arrangements with our corporate partners, such as activities performed on behalf of Kirin-Amgen Inc. (KA), and costs and cost recoveries associated with

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

collaborative R&D and in-licensing arrangements, including upfront fees and milestones paid to collaboration partners in connection with technologies that have no alternative future use. Net payment or reimbursement of R&D costs for R&D collaborations is recognized when the obligations are incurred or as we become entitled to the cost recovery. See Note 3, *Collaborative arrangements.*

Selling, general and administrative costs

Selling, general and administrative (SG&A) expenses are primarily comprised of salaries, benefits and other staff-related costs associated with sales and marketing, finance, legal and other administrative personnel; facilities and overhead costs; outside marketing, advertising and legal expenses and other general and administrative costs.

SG&A expenses include costs and cost recoveries associated with collaborative arrangements. Net payment or reimbursement of SG&A costs for collaborations is recognized when the obligations are incurred or as we become entitled to the cost recovery. See Note 3, *Collaborative arrangements.*

Earnings per share

Basic earnings per share (EPS) is based upon the weighted-average number of common shares outstanding. Diluted EPS is based upon the weighted-average number of common shares and dilutive potential common shares outstanding. Potential common shares outstanding principally include stock options, restricted stock (including restricted stock units) and other equity awards under our employee compensation plans and potential issuance of stock upon the assumed conversion of our 2011 Convertible Notes, 2013 Convertible Notes and 2032 Modified Convertible Notes, as discussed below, and upon the assumed exercise of our warrants using the treasury stock method (collectively Dilutive Securities). The convertible note hedges purchased in connection with the issuance of our 2011 Convertible Notes and 2013 Convertible Notes are excluded from the calculation of diluted EPS as their impact is always anti-dilutive. For further information regarding our convertible notes, see Note 6, *Financing arrangements*.

Our 2011 Convertible Notes, 2013 Convertible Notes and 2032 Modified Convertible Notes are considered Instrument C securities as defined by EITF No. 90-19 *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion.* Therefore, only the shares of common stock potentially issuable with respect to the excess of the notes conversion value over their principal amount or accreted value, if any, are considered as dilutive potential common shares for purposes of calculating diluted EPS. For the three months ended March 31, 2009 and 2008, the conversion values for our convertible notes were less than the related principal amounts or accreted value and, accordingly, no shares were assumed to be issued for purposes of computing diluted EPS. For further information regarding our convertible notes, see Note 6, *Financing arrangements*.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the computation for basic and diluted EPS (in millions, except per share information):

	Three months ended March 31,	
	2009	**2008**
Income (Numerator):		
Net income for basic and diluted EPS	$ 1,019	$ 1,100
Shares (Denominator):		
Weighted-average shares for basic EPS	1,032	1,089
Effect of dilutive securities	5	3
Weighted-average shares for diluted EPS	1,037	1,092
Basic EPS	$ 0.99	$ 1.01
Diluted EPS	$ 0.98	$ 1.01

For the three months ended March 31, 2009 and 2008, there were employee stock options, calculated on a weighted average basis, to purchase 46 million and 52 million shares, respectively, with exercise prices greater than the average market prices of common stock for these periods that are not included in the computation of diluted EPS as their impact would have been anti-dilutive. In addition, shares which may be issued upon conversion of our convertible debt or upon exercise of our warrants are not included above as their impact on diluted EPS would have been anti-dilutive. Shares which may be issued under our 2007 performance award program were also excluded because conditions under the program were not met as of either period.

Recent accounting pronouncements

In April 2009, the FASB issued FSP SFAS No. 115-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP SFAS 115-2), which will be effective for interim and annual periods ending after June 15, 2009. FSP SFAS 115-2 modifies the guidance to determine whether the impairment of a debt security is other-than-temporary. This new standard also amends the presentation and disclosure requirements of other-than-temporarily impaired debt and equity securities in the financial statements. We are currently evaluating the potential impact of FSP SFAS 115-2 on our financial statements.

2. Change in method of accounting for convertible debt instruments

As discussed in Note 1, *Summary of significant accounting policies - Change in method of accounting for convertible debt instruments,* effective January 1, 2009, we adopted FSP APB 14-1 and, as required by this new standard, we retrospectively applied this change in accounting to all prior periods for which we had applicable outstanding convertible debt.

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AMGEN INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following illustrates the impact of adopting FSP APB 14-1 on the Condensed Consolidated Income Statements for the three months ended March 31, 2009 and 2008 and on the Condensed Consolidated Balance Sheets as of March 31, 2009 and December 31, 2008 (in millions, except per share information):

	Three months ended March 31, 2009
	Excluding the effect of FSP APB 14-1