AMGEN INC
Form 10-Q
November 09, 2006

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 September 30, 2006

OR

o **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 o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

As of October 20, 2006, the registrant had 1,166,518,456 shares of common stock, $0.0001 par value, outstanding.

AMGEN INC.

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The information in this report for the three and nine months ended September 30, 2006 and 2005 is unaudited but includes all adjustments (consisting only of normal recurring accruals, unless otherwise indicated) which Amgen Inc., including its subsidiaries (referred to as Amgen, we, our and us), considers necessary for a fair presentation of the results of operations for those periods.

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, 2005.

Interim results are not necessarily indicative of results for the full fiscal year.

AMGEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues:				
Product sales	$ 3,503	$ 3,047	$ 10,121	$ 8,854
Other revenues	109	107	312	305
Total revenues	3,612	3,154	10,433	9,159
Operating expenses:				
Cost of sales (excludes amortization of acquired intangible assets presented below)	489	552	1,534	1,571
Research and development	872	562	2,315	1,653
Selling, general and administrative	807	656	2,336	1,879
Write-off of acquired in-process research and development			1,101	
Amortization of acquired intangible assets	122	86	296	260
Legal settlements				49
Total operating expenses	2,290	1,856	7,582	5,412
Operating income	1,322	1,298	2,851	3,747
Interest and other income and (expense), net	39	14	140	10
Income before income taxes	1,361	1,312	2,991	3,757
Provision for income taxes	259	345	874	907
Net income	$ 1,102	$ 967	$ 2,117	$ 2,850
Earnings per share:				
Basic	$ 0.94	$ 0.78	$ 1.79	$ 2.30
Diluted	$ 0.94	$ 0.77	$ 1.77	$ 2.26
Shares used in calculation of earnings per share:				
Basic	1,167	1,233	1,181	1,238
Diluted	1,178	1,249	1,194	1,263

See accompanying notes.

AMGEN INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)

(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,291	$ 1,840
Marketable securities	4,490	3,415
Trade receivables, net	2,124	1,769
Inventories	1,711	1,258
Other current assets	1,040	953
Total current assets	10,656	9,235
Property, plant, and equipment, net	5,673	5,038
Intangible assets, net	3,819	3,742
Goodwill	11,206	10,495
Other assets	1,232	787
	$ 32,586	$ 29,297
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 569	$ 596
Accrued liabilities	3,946	2,999
Convertible notes	1,773	
Total current liabilities	6,288	3,595
Deferred tax liabilities	1,079	1,163
Convertible notes	5,000	1,759
Other long-term debt	2,233	2,198
Other non-current liabilities	265	131
Contingencies		
Stockholders equity:		
Preferred stock; $0.0001 par value; 5 shares authorized; none issued or outstanding		
Common stock and additional paid-in capital; $0.0001 par value; 2,750 shares authorized; outstanding - 1,166 shares in 2006 and 1,224 shares in 2005	23,500	23,561
Accumulated deficit	(5,789)	(3,132)
Accumulated other comprehensive income	10	22
Total stockholders equity	17,721	20,451
	$ 32,586	$ 29,297

See accompanying notes.

AMGEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2006	**2005**
Cash flows from operating activities:		
Net income	$ 2,117	$ 2,850
Write-off of acquired in-process research and development	1,101	
Depreciation and amortization	763	623
Stock-based compensation expense	330	76
Tax benefits related to employee stock-based compensation	52	247
Other items, net	(177)	(73)
Cash provided by (used in) changes in operating assets and liabilities:		
Trade receivables, net	(355)	(203)
Inventories	(378)	(171)
Other assets	(26)	2
Accounts payable	(11)	(10)
Accrued income taxes	326	194
Other accrued liabilities	405	247
Net cash provided by operating activities	4,147	3,782
Cash flows from investing activities:		
Cash paid for acquisition of Abgenix, Inc., net of cash acquired	(1,888)	
Purchases of property, plant, and equipment	(834)	(602)
Proceeds from maturities of marketable securities	858	519
Proceeds from sales of marketable securities	2,052	9,373
Purchases of marketable securities	(3,981)	(9,028)
Other	(136)	41
Net cash (used in) provided by investing activities	(3,929)	303
Cash flows from financing activities:		
Repurchases of common stock (see Notes 5 and 6)	(1,755)	(3,194)
Repayment of debt assumed in Abgenix, Inc. acquisition	(653)	
Repayment of convertible notes		(1,175)
Proceeds from issuance of convertible notes and related transactions, net (see Note 5)	440	
Proceeds from issuance of warrants (see Note 5)	774	
Net proceeds from issuance of common stock upon the exercise of employee stock options and in connection with an employee stock purchase plan	367	924
Other	60	(15)
Net cash used in financing activities	(767)	(3,460)
(Decrease) increase in cash and cash equivalents	(549)	625
Cash and cash equivalents at beginning of period	1,840	1,526
Cash and cash equivalents at end of period	$ 1,291	$ 2,151

See accompanying notes.

AMGEN INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

(Unaudited)

1. Summary of significant accounting policies

Business

Amgen 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 and nine months ended September 30, 2006 and 2005 is unaudited but includes all adjustments (consisting only of normal recurring accruals, unless otherwise indicated), which we consider 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.

Principles of consolidation

The 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.

Use of estimates

The preparation of 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 financial statements and accompanying notes. Actual results may differ from those estimates.

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):

	September 30, 2006	December 31, 2005
Raw materials	$ 200	$ 145
Work in process	1,054	758
Finished goods	457	355
	$ 1,711	$ 1,258

Intangible assets and goodwill

Intangible assets are recorded at cost, less accumulated amortization. Amortization of intangible assets is provided over their estimated useful lives ranging from 5 to 15 years on a straight-line basis (weighted-average amortization period of 14 years at September 30, 2006). Intangible assets primarily consist of acquired product technology rights of $3,177 million, net of accumulated amortization of $1,238 million, which relate to the identifiable intangible assets acquired in connection with the Immunex Corporation (Immunex) acquisition in July 2002. Amortization of acquired product technology rights is included in Amortization of acquired intangible assets in the accompanying Condensed Consolidated Statements of Operations. Intangible assets also include technology used in research and development with alternative future uses, specifically the XenoMouse® technology acquired in the Abgenix, Inc. (Abgenix) acquisition (see Note 8, Abgenix, Inc. acquisition). Amortization of the XenoMouse® technology is included in Research and development in the accompanying Condensed Consolidated Statements of Operations. We review our intangible assets for impairment periodically and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. During the three months ended September 30, 2006, we recognized a $49 million impairment charge related to a non-Enbrel® related intangible asset previously acquired in the Immunex acquisition, which is included in Amortization of acquired intangible assets in the accompanying Condensed Consolidated Statements of Operations.

Intangible assets subject to amortization	**Weighted-average amortization period**	**September 30, 2006**	**December 31, 2005**
Acquired product technology rights:			
Developed product technology	15 years	$ 2,877	$ 3,077
Core technology	15 years	1,348	1,348
Trade name	15 years	190	190
XenoMouse® technology	5 years	320	
Other intangible assets	11 years	454	335
		5,189	4,950
Less accumulated amortization		(1,370)	(1,208)
		$ 3,819	$ 3,742

Goodwill principally relates to the acquisition of Immunex. The increase over the balance at December 31, 2005 is due to the goodwill associated with the Abgenix acquisition on April 1, 2006 (see Note 8, Abgenix, Inc. acquisition) net of the decrease primarily due to tax benefits realized upon exercise of Immunex related stock options during the nine months ended September 30, 2006. We perform an impairment test annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable.

6

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.

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.), a subsidiary of Johnson & Johnson (Johnson & Johnson), 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 Johnson & Johnson and do recognize the product sales made by Johnson & Johnson 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

Research and development (R&D) costs, which are expensed as incurred, are primarily comprised of costs for: salaries and benefits associated with R&D personnel, overhead and occupancy, clinical trial and related clinical manufacturing, including contract services and other outside costs, process development, quality assurance, information systems and amortization of technology used in R&D with alternative future uses. R&D expenses also include such costs related to activities performed on behalf of corporate partners.

Acquired in-process research and development

The fair value of acquired in-process R&D (IPR&D) projects and technologies which have no alternative future use and which have not reached technological feasibility at the date of acquisition are immediately expensed. In the second quarter of 2006 we expensed $1,101 million of acquired IPR&D related to the Abgenix acquisition (see Note 8, Abgenix, Inc. acquisition). Acquired IPR&D is considered part of total R&D expense.

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 under our employee stock option plans and potential issuances of stock under

7

our other equity incentive plans and under the assumed conversion of our 2032 Modified Convertible Notes, 2011 Convertible Notes, 2013 Convertible Notes and under the assumed exercise of our warrants using the treasury stock method (collectively Dilutive Securities). Potential common shares also include common stock to be issued upon conversion of our 2032 Convertible Notes under the if-converted method. For further information regarding our convertible notes and warrants (see Note 5, Financing arrangements).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Income (Numerator):				
Net income for basic EPS	$ 1,102	$ 967	$ 2,117	$ 2,850
Adjustment for interest expense on 2032 Convertible Notes, net of tax				6
Net income for diluted EPS, after assumed conversion	$ 1,102	$ 967	$ 2,117	$ 2,856
Shares (Denominator):				
Weighted-average shares for basic EPS	1,167	1,233	1,181	1,238
Effect of Dilutive Securities	11	15	13	12
Effect of 2032 Convertible Notes, after assumed conversion		1		13
Weighted-average shares for diluted EPS	1,178	1,249	1,194	1,263
Basic earnings per share	$ 0.94	$ 0.78	$ 1.79	$ 2.30
Diluted earnings per share	$ 0.94	$ 0.77	$ 1.77	$ 2.26

Recent Accounting Pronouncements

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, using the modified-prospective-transition method. See Note 2, Employee stock-based payments for further discussion regarding this accounting pronouncement.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing rules for recognition, measurement, classification and disclosure in our financial statements of tax positions taken or expected to be taken in a tax return. We are currently evaluating the provisions in FIN 48, but have not yet determined its expected impact on us. We plan to adopt this new standard on January 1, 2007.

8

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

2. Employee stock-based payments

We have employee compensation plans under which various types of stock-based instruments are granted. These instruments, as more fully described below, principally include stock options, restricted stock (including restricted stock units) and performance units. As of September 30, 2006, these plans provide for future grants and/or issuances of up to approximately 43 million shares of common stock to our employees. Stock-based awards under our employee compensation plans are made with newly issued shares reserved for this purpose.

Prior to January 1, 2006, we accounted for our employee stock-based compensation under the recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. Under the recognition principles of APB No. 25, compensation expense related to restricted stock and performance units was recognized in our financial statements. However, APB No. 25 generally did not require the recognition of compensation expense for our stock options because the exercise price of these instruments was generally equal to the market value of the underlying common stock on the date of grant, and the related number of shares granted were fixed at that point in time.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment. In addition to recognizing compensation expense related to restricted stock and performance units, SFAS No. 123(R) also requires us to recognize compensation expense related to the estimated fair value of stock options. We adopted SFAS No. 123(R) using the modified-prospective-transition method. Under that transition method, compensation expense recognized subsequent to adoption includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the values estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair values estimated in accordance with the provisions of SFAS No. 123(R). Consistent with the modified-prospective-transition method, our results of operations for prior periods have not been adjusted to reflect the adoption of SFAS 123(R).

As a result of recognizing compensation expense for stock options pursuant to the provisions of SFAS No. 123(R), our income before income taxes for the three and nine months ended September 30, 2006, was $50 million and $179 million lower, respectively, and our net income was $36 million and $124 million lower, respectively, than if we had continued to account for stock options under APB No. 25. In addition, both basic and diluted earnings per share for the three and nine months ended September 30, 2006 were $0.03 and $0.11 lower, respectively, than if we had continued to account for stock options under APB No. 25.

9

The following table reflects the components of stock-based compensation expense recognized in our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2006 and 2005 (amounts in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Stock options	$ 50	$	$ 179	$
Restricted stock	17	13	42	35
Performance units	34	13	109	41
Total stock-based compensation expense, pre-tax	101	26	330	76
Tax benefit from stock-based compensation expense	(29)	(8)	(103)	(23)
Total stock-based compensation expense, net of tax	$ 72	$ 18	$ 227	$ 53

The above table does not reflect any stock option compensation for the three and nine months ended September 30, 2005 as we generally did not record stock option expense under APB No. 25, as previously discussed. The following table illustrates the effect on net income and earnings per share for the three and nine months ended September 30, 2005 if we had applied the fair value recognition provisions to our stock options as provided under SFAS No. 123 (in millions, except per share information):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income	$ 967	$ 2,850
Stock-based compensation, net of tax	(46)	(183)
Pro forma net income	$ 921	$ 2,667
Earnings per share:		
Basic	$ 0.78	$ 2.30
Impact of stock option expense	(0.03)	(0.15)
Basic - pro forma	$ 0.75	$ 2.15
Diluted	$ 0.77	$ 2.26
Impact of stock option expense	(0.03)	(0.14)
Diluted - pro forma	$ 0.74	$ 2.12

For purposes of this pro forma disclosure, the fair values of stock options were estimated using the Black-Scholes option valuation model and amortized to expense over the options vesting periods.

10

Employee stock option and restricted stock grants

Several of our equity-based compensation plans provide for grants of stock options to employees. The option exercise price is set at the closing price of our common stock on the date of grant, and the related number of shares granted is fixed at that point in time. These plans also provide for grants of restricted stock. Grants of these equity instruments generally vest/have restrictions which lapse over a three to five year period. In addition, stock option awards expire seven years from the date of grant. Eligible employees generally receive a grant of stock options and/or restricted stock annually with the number of shares and type of instrument generally determined by the employee s salary grade and performance level. In addition, certain management and professional level employees typically receive a stock option grant upon commencement of employment. These stock-based plans provide for accelerated vesting/lapse of restrictions if there is a change in control as defined in the plans.

We use the Black-Scholes option valuation model to estimate the grant date fair value of employee stock options. The expected volatility reflects the consideration of the implied volatility in our publicly traded instruments during the period the option is granted. We believe implied volatility in these instruments is more indicative of expected future volatility than the historical volatility in the price of our common stock. Upon the adoption of SFAS No. 123(R) the expected life of the option is estimated using the simplified method as provided in Securities and Exchange Commission Staff Accounting Bulletin No. 107. Under this method, the expected life equals the arithmetic average of the vesting term and the original contractual term of the option. Prior to adoption of SFAS No. 123(R), we used historical data to estimate the expected life of the options. The risk-free interest rates for periods within the expected life of the option are based on the U.S. Treasury yield curve in effect during the period the options were granted. Upon adoption of SFAS No. 123(R), we began using historical data to estimate forfeiture rates applied to the gross amount of expense determined using the option valuation model. Prior to adoption of SFAS No. 123(R), we recognized forfeitures as they occurred. There was no material impact upon adoption of SFAS No. 123(R) between these methods of accounting for forfeitures. The weighted-average assumptions used to estimate the fair value of the stock options using the Black-Scholes option valuation model were as follows for the nine months ended September 30:

	2006	2005
Fair value of common stock	$ 71.05	$ 61.40
Fair value of stock options granted	$ 21.84	$ 17.93
Risk-free interest rate	4.8%	4.0%
Expected life (in years)	4.8	5.1
Expected volatility	24.3%	23.6%
Expected dividend yield	0%	0%

11

Stock option information with respect to our stock-based compensation plans during the nine months ended September 30, 2006 is as follows (options and dollars in millions, except per share amounts):

	Options	Weighted-average exercise price	Weighted-average remaining contractual life (Yrs)	Aggregate intrinsic value
Balance unexercised at December 31, 2005	67.6	$ 56.03		
Granted	10.3	$ 71.04		
Assumed from Abgenix (including 1.4 vested)	1.9	$ 33.79		
Exercised	(8.0)	$ 36.80		
Forfeited/expired	(2.2)	$ 56.66		
Balance unexercised at September 30, 2006	69.6	$ 59.86	3.9	$ 837
Vested or expected to vest at September 30, 2006	66.0	$ 59.55	3.9	$ 812
Exercisable at September 30, 2006	41.8	$ 56.83	3.0	$ 619

The total intrinsic value of options exercised during the three and nine months ended September 30, 2006 was $43 million and $260 million, respectively.

The fair values of shares of restricted stock are determined based on the closing price of Amgen common stock on the grant dates. Information regarding our restricted stock during the nine months ended September 30, 2006 is as follows (shares in millions):

Nonvested shares	Shares	Weighted-average grant date fair value
Nonvested at December 31, 2005	2.8	$ 58.90
Granted	2.3	$ 71.56
Vested	(0.8)	$ 59.23
Forfeited	(0.2)	$ 62.25
Nonvested at September 30, 2006	4.1	$ 65.68

The total fair value of shares of restricted stock that vested during the three and nine months ended September 30, 2006 was $4 million and $55 million, respectively.

As of September 30, 2006, there was $563 million of total unrecognized compensation cost related to nonvested awards of both stock options and shares of restricted stock. That cost is expected to be recognized over a weighted-average period of 1.5 years. For stock option and restricted stock awards subject to graded vesting that were issued after January 1, 2006, we recognize compensation cost on a straight-line basis over the service period for the entire award.

12

Performance award program

Beginning in 2004, certain management-level employees receive annual grants of performance units. A performance unit gives the recipient the right to receive common stock that is contingent upon achievement of specified pre-established performance goals over a three-year performance period. The performance goals are based upon both Amgen s standalone performance and its performance compared to other benchmark companies, in each case with respect to compound annual growth rates for revenue and earnings per share, as defined in the program. Performance units are assigned a unit value based on the fair market value of Amgen common stock on the grant date. The ultimate level of attainment of performance goals is determined at the end of the performance period and expressed as a percentage (within a range of 0% to 225%). This percentage is multiplied by the number of performance units initially granted and by the initial value per unit to determine the aggregate dollar value of the award. The aggregate dollar value is then divided by the average closing price of Amgen common stock during a specified period following the performance period to determine the number of shares of common stock payable to the recipient.

Because the first performance period for these instruments ends on December 31, 2006, no performance units have yet vested and no common stock has been issued to any recipient. As of September 30, 2006, there was $165 million of total estimated unrecognized compensation cost related to performance units that is expected to be recognized over a weighted-average period of 1.0 year.

Under APB No. 25, the estimated amounts owed for grants of performance units were classified in stockholders equity, but upon adoption of SFAS 123(R), these amounts are classified as liabilities. Accordingly, on January 1, 2006, a reclassification was made from stockholders equity to liabilities (current and non-current) totaling $104 million.

3. Related party transactions

We own a 50% interest in Kirin-Amgen, Inc. (KA), a corporation formed in 1984 with Kirin Brewery Company, Limited (Kirin) for the development and commercialization of certain products based on advanced biotechnology. We account for our interest in KA under the equity method and include our share of KA s profits or losses in Selling, general and administrative in the Condensed Consolidated Statements of Operations. During the three and nine months ended September 30, 2006, our share of KA s profits were $15 million and $43 million, respectively. During the three and nine months ended September 30, 2005, our share of KA s profits were $13 million and $43 million, respectively. At September 30, 2006 and December 31, 2005, the carrying value of our equity method investment in KA was $223 million and $180 million, respectively, and is included in non-current other assets in the accompanying Condensed Consolidated Balance Sheets. KA s revenues consist of royalty income related to its licensed technology rights. All of our rights to manufacture and market certain products including erythropoietin, granulocyte colony-stimulating factor (G-CSF), darbepoetin alfa and pegfilgrastim are pursuant to exclusive licenses from KA, which we currently

13

market certain of these products under the brand names EPOGEN®, NEUPOGEN®, Aranesp® and Neulasta®, respectively. KA receives royalty income from us, as well as Kirin, Johnson & Johnson and F. Hoffmann-La Roche Ltd under separate product license agreements for certain geographic areas outside of the United States. During the three and nine months ended September 30, 2006, KA earned royalties from us of $82 million and $238 million, respectively. During the three and nine months ended September 30, 2005, KA earned royalties from us of $72 million and $215 million, respectively. These amounts are included in Cost of sales (excludes amortization of acquired intangible assets) in the Condensed Consolidated Statements of Operations.

KA s expenses primarily consist of costs related to R&D activities conducted on its behalf by Amgen and Kirin. KA pays Amgen and Kirin for such services at negotiated rates. During the three and nine months ended September 30, 2006, we earned revenues from KA of $35 million and $98 million, respectively, for certain R&D activities performed on KA s behalf. During the three and nine months ended September 30, 2005, we earned revenues from KA of $34 million and $81 million, respectively. These amounts are included in Other revenues in the accompanying Condensed Consolidated Statements of Operations.

4. Income taxes

The tax rates for the three and nine months ended September 30, 2006 are different from the statutory rate primarily as a result of the favorable resolution of prior year federal and state audits and indefinitely invested earnings of our foreign operations. In addition, the tax rate for the nine months ended September 30, 2006 was impacted by the write-off of non-deductible acquired IPR&D in connection with the acquisition of Abgenix. The favorable impact of prior year tax matters recognized in the three months ended September 30, 2006 amounted to approximately $60 million, or $0.05 per diluted share. We do not provide for U.S. income taxes on undistributed earnings of our foreign operations that are intended to be invested indefinitely outside the United States.

Our income tax returns are routinely audited by the Internal Revenue Service and various state and foreign tax authorities. Significant disputes can arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions because of differing interpretations of tax laws and regulations. We periodically evaluate our exposures associated with tax filing positions. While we believe our positions comply with applicable laws, we record liabilities based upon estimates of the ultimate outcomes of these matters.

14

5. Financing arrangements

The following table reflects the carrying value of our long-term borrowings under our various financing arrangements as of September 30, 2006 and December 31, 2005 (in millions):

	September 30, 2006	December 31, 2005
0.125% convertible notes due 2011 (2011 Convertible Notes)	$ 2,500	$
0.375% convertible notes due 2013 (2013 Convertible Notes)	2,500	