AMGEN INC
Form 10-Q
November 06, 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 September 30, 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 x 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 November 2, 2009, the registrant had 1,012,138,434 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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenues:				
Product sales	$ 3,736	$ 3,784	$ 10,608	$ 11,013
Other revenues	76	91	225	239
Total revenues	3,812	3,875	10,833	11,252
Operating expenses:				
Cost of sales (excludes amortization of certain acquired intangible assets presented below)	545	677	1,553	1,738
Research and development	647	729	1,973	2,232
Selling, general and administrative	932	900	2,640	2,678
Amortization of certain acquired intangible assets	74	74	221	221
Other charges	9	12	63	306
Total operating expenses	2,207	2,392	6,450	7,175
Operating income	1,605	1,483	4,383	4,077
Interest expense, net	139	133	436	419
Interest and other income, net	74	62	182	264
Income before income taxes	1,540	1,412	4,129	3,922
Provision for income taxes	154	291	455	795
Net income	$ 1,386	$ 1,121	$ 3,674	$ 3,127
Earnings per share:				
Basic	$ 1.36	$ 1.06	$ 3.60	$ 2.91
Diluted	$ 1.36	$ 1.05	$ 3.58	$ 2.90

Shares used in calculation of earnings per share:				
Basic	1,016	1,058	1,020	1,075
Diluted	1,022	1,064	1,025	1,079

See accompanying notes, including Note 1 for discussion of required retrospective adoption of a new accounting standard effective January 1, 2009, applicable to our convertible debt.

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AMGEN INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)

(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,577	$ 1,774
Marketable securities	10,436	7,778
Trade receivables, net	2,331	2,073
Inventories	2,155	2,075
Other current assets	1,475	1,521
Total current assets	19,974	15,221
Property, plant and equipment, net	5,743	5,879
Intangible assets, net	2,674	2,988
Goodwill	11,335	11,339
Other assets	1,214	1,000
Total assets	$ 40,940	$ 36,427
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 613	$ 504
Accrued liabilities	3,290	3,382
Current portion of other long-term debt	1,000	1,000
Total current liabilities	4,903	4,886
Convertible notes	4,447	4,257
Other long-term debt	6,089	4,095
Other non-current liabilities	2,643	2,304
Commitments and contingencies		
Stockholders equity:		
Common stock and additional paid-in capital; $0.0001 par value; 2,750 shares authorized; outstanding - 1,016 shares in 2009 and 1,047 shares in 2008	26,853	26,441
Accumulated deficit	(4,042)	(5,673)
Accumulated other comprehensive income	47	117
Total stockholders equity	22,858	20,885
Total liabilities and stockholders equity	$ 40,940	$ 36,427

See accompanying notes, including Note 1 for discussion of required retrospective adoption of a new accounting standard effective January 1, 2009, applicable to our convertible debt.

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AMGEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine months ended September 30,	
	2009	**2008**
Cash flows from operating activities:		
Net income	$ 3,674	$ 3,127
Depreciation and amortization	792	799
Stock-based compensation expense	209	195
Other items, net	146	69
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables, net	(258)	16
Inventories	(60)	(22)
Other current assets	(33)	(29)
Accounts payable	43	136
Accrued income taxes	33	88
Other accrued liabilities	(66)	(125)
Deferred revenue	33	337
Net cash provided by operating activities	4,513	4,591
Cash flows from investing activities:		
Purchases of property, plant and equipment	(386)	(494)
Cash paid for acquisitions, net of cash acquired	-	(50)
Purchases of marketable securities	(10,889)	(7,794)
Proceeds from sales of marketable securities	7,026	5,002
Proceeds from maturities of marketable securities	1,340	625
Other	46	93
Net cash used in investing activities	(2,863)	(2,618)
Cash flows from financing activities:		
Repurchases of common stock	(1,997)	(1,568)
Repayment of debt	-	(1,000)
Net proceeds from issuance of debt	1,980	992
Net proceeds from issuance of common stock in connection with the Company s equity award programs	146	114
Other	24	(13)
Net cash provided by (used in) financing activities	153	(1,475)
Increase in cash and cash equivalents	1,803	498
Cash and cash equivalents at beginning of period	1,774	2,024

Cash and cash equivalents at end of period	$ 3,577	$ 2,522

See accompanying notes, including Note 1 for discussion of required retrospective adoption of a new accounting standard effective January 1, 2009, applicable to our convertible debt.

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AMGEN INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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 and nine months ended September 30, 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 result 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.

Financial Accounting Standards Board (FASB) Accounting Standards Codification

During the three months ended September 30, 2009, the FASB Accounting Standards Codification (ASC or Codification) became the authoritative source of accounting principles generally accepted in the United States (GAAP) recognized by the FASB. All existing FASB accounting standards and guidance were superseded by the ASC. Instead of issuing new accounting standards in the form of statements, FASB staff positions and Emerging Issues Task Force abstracts, the FASB now issues Accounting Standards Updates that update the Codification. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws continue to be additional sources of authoritative GAAP for SEC registrants.

Change in method of accounting for convertible debt instruments

Effective January 1, 2009, we adopted a new accounting standard that changed the method of accounting for convertible debt that may be partially or wholly settled in cash. 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 9, *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.

Use of estimates

The preparation of condensed consolidated financial statements in conformity with 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair value measurement

We adopted a new accounting standard that defines fair value and establishes a framework for fair value measurements effective January 1, 2008 for financial assets and liabilities and effective January 1, 2009 for non-financial assets and liabilities that are not remeasured on a recurring basis. Under this standard, fair value is generally 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 this accounting standard did not have a material impact on our condensed consolidated results of operations, financial position or cash flows.

During the three months ended June 30, 2009, we adopted a new accounting standard that modifies the guidance used in determining whether the impairment of a debt security is other-than-temporary. Under this accounting standard, the impairment of a debt security is considered other-than-temporary if an entity concludes that it intends to sell the impaired security, that it is more likely than not it will be required to sell the security before the recovery of its cost basis or that it does not otherwise expect to recover the entire cost basis of the security. This accounting standard also amends the presentation requirements of other-than-temporarily impaired debt securities and expands disclosure requirements in the financial statements for investments in both debt and equity securities. The adoption of this accounting standard did not have a material impact on our condensed consolidated results of operations, financial position or cash flows.

During the three months ended June 30, 2009, we adopted two new accounting standards that require disclosures at each interim balance sheet date of the fair value of financial instruments and valuation techniques used to determine fair value. Previously, these disclosures were only required annually. One of these accounting standards also provides additional guidance in estimating fair value when the market volume and level of activity for an asset or liability have significantly decreased and identifying circumstances that indicate a transaction may not be orderly. The adoption of these two accounting standards did not have a material impact on our condensed consolidated results of operations, financial position or cash flows.

See Note 11, *Fair value measurement*.

Derivative instruments

Effective January 1, 2009, we adopted a new accounting standard that requires disclosures about our derivative instruments and hedging activities. This standard 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 standard also requires disclosure of how derivatives and related hedged items affect our financial statements. The adoption of this standard did not have a material impact on our condensed consolidated results of operations, financial position or cash flows. See Note 12, *Derivative instruments*.

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.

Property, plant and equipment, net

Property, plant and equipment are recorded at historical cost, net of accumulated depreciation of $4.5 billion and $4.1 billion as of September 30, 2009 and December 31, 2008, respectively.

Goodwill

Goodwill principally relates to our 2002 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 sale of the Company s products, primarily in Europe, are excluded from revenues.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Research and development (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 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.

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 certain 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.

Subsequent events

During the three months ended June 30, 2009, we adopted a new accounting standard that establishes general standards for the accounting and disclosing of events that occur after the balance sheet date that are not addressed elsewhere in the Codification. This standard requires entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued. We have evaluated subsequent events through the date of issuance of our financial statements in this Form 10-Q.

Recent accounting pronouncements

In June 2009, the FASB issued a new accounting standard which amends guidance regarding consolidation of variable interest entities to address the elimination of the concept of a qualifying special purpose entity. This standard also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of the variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, this standard requires any enterprise that holds a variable interest in a variable interest entity to make ongoing assessments of whether it has a controlling financial interest in the variable interest entity and to provide enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in the variable interest entity. This standard is effective for us for interim and annual reporting periods beginning on or after January 1, 2010. The adoption of this standard is not expected to have a material impact on our condensed consolidated results of operations, financial position or cash flows.

In August 2009, the FASB issued a new accounting standard which clarifies guidance for determining the fair value of a liability when a quoted price in an active market for an identical liability is not available. This standard provides for the use of one or more valuation techniques including use of quoted prices of identical or similar liabilities when traded as assets, quoted prices of similar liabilities and other tec