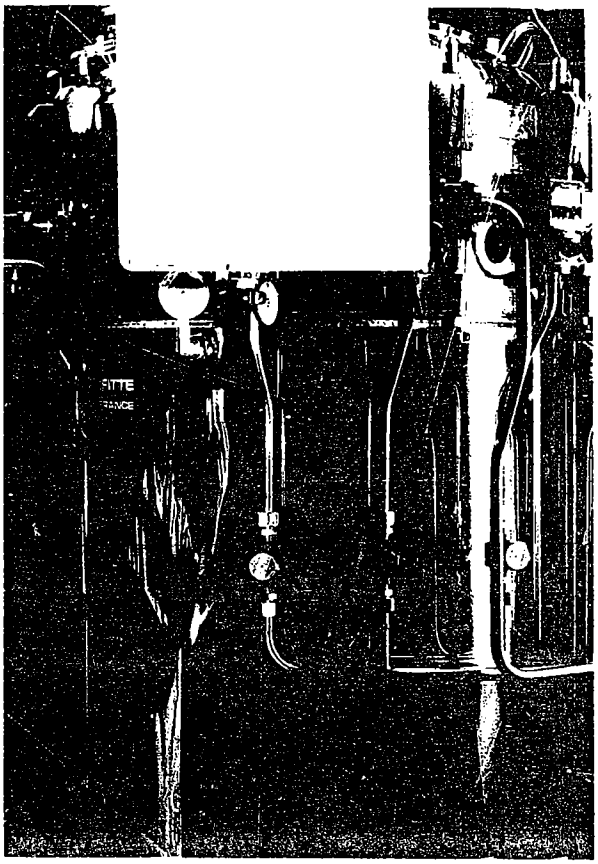
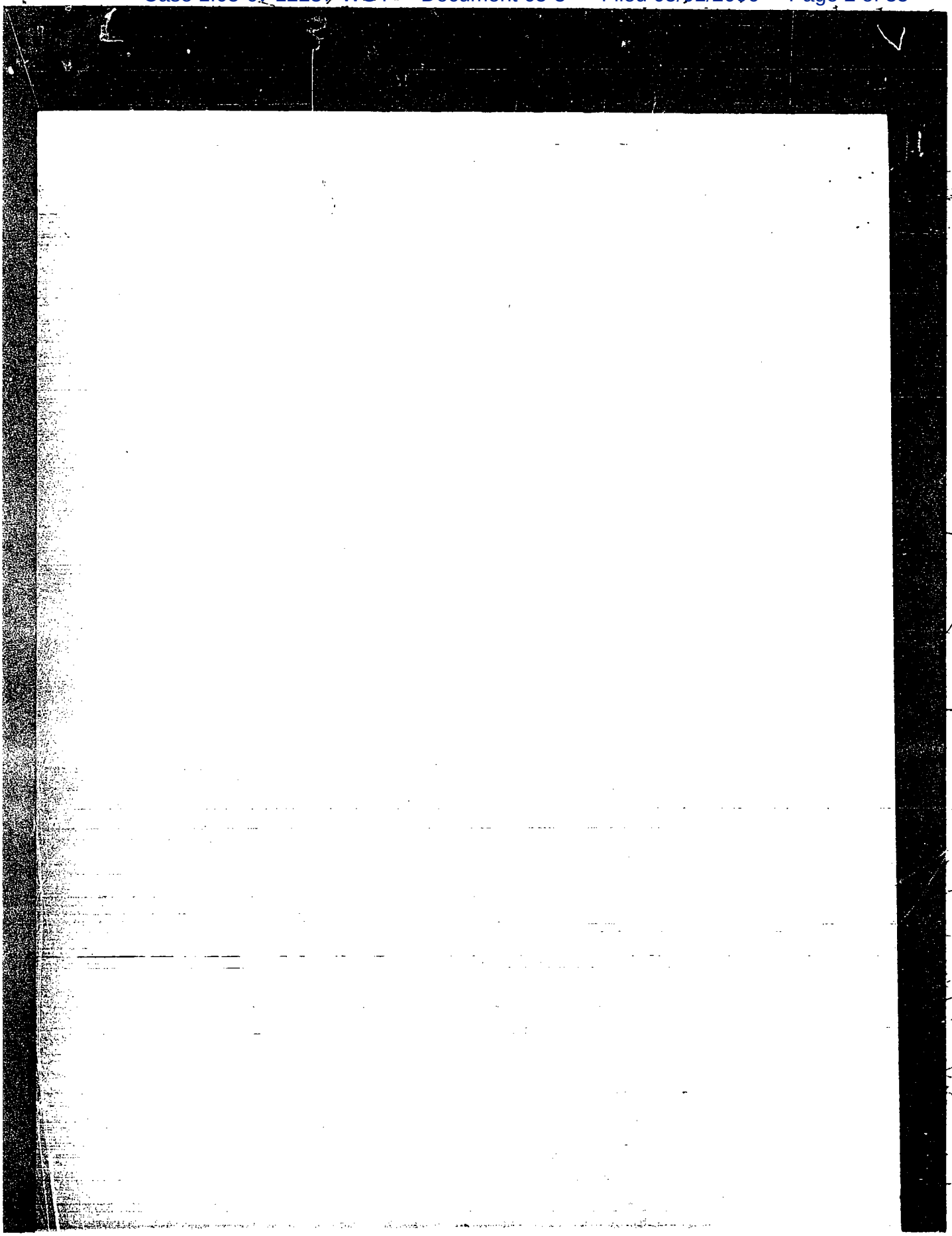




Selected Financial Data
(in thousands, except per share amounts)
(Unaudited)

	1986	1985	1984	1983	1982
Total revenues	$23,359	$10,130	$ 6,115	$ 1,571	$ 2,715
Expenses					
Research and development	17,424	13,823	8,758	7,095	3,325
General and administrative	4,600	3,459	2,212	1,486	1,025
Net income (loss)	548	(7,763)	(4,941)	(7,079)	(1,656)
Net income (loss) per share	.05	(.72)	(.55)	(3.06)	(.68)
Shares used in calculation of net income (loss) per share	11,644	10,797	8,969	2,317	2,425
Total assets	93,675	47,852	55,342	11,542	17,975
Long-term debt	8,361	8,245	8,029	41	—
Shareholders' equity	80,580	37,705	45,295	10,109	17,137

Corporate Highlights

Increased annual revenues by 130% - $23.4 million in fiscal 1986 compared to $10.1 million in fiscal 1985.

Achieved profitable operations for the year.

Introduced five human pharmaceutical products into Phase I clinical testing: erythropoietin, interleukin 2, hepatitis B vaccine, gamma interferon and consensus interferon.

Completed public equity financing with net proceeds of $37 million.

Established joint venture arrangement with Johnson & Johnson on three major pharmaceutical products.

Completed $5 million private equity placement and joint venture agreement with SmithKline Beckman to commercialize porcine somatotropin.

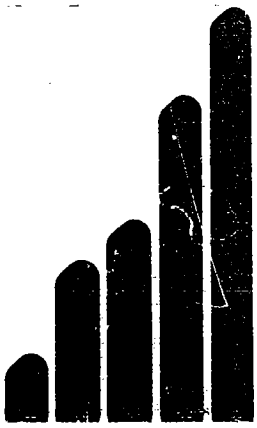
Formed partnership with Arbor Acres Farm, Inc. on poultry breeding and genetic selection.

Completed development and marketing agreement with Eastman Kodak on selected specialty chemicals.

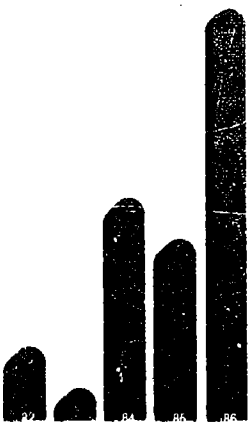
Received issuance of the Company's first patents.

Total revenues

Research and Development Expenses



Shareholders' Equity



To Our Shareholders

Fiscal 1986, Amgen's fifth year of operations, was highlighted by commercial progress and scientific achievement. The Company's accomplishments in each of the major areas of its operations have enabled it to continue on plan to build an independent health care enterprise based on recombinant DNA and molecular biology. Our scientific achievements, commercial relationships, organizational development, facilities expansion and financial performance distinguish Amgen as one of a handful of companies completing the transformation from a research organization to a fully integrated company capable of manufacturing and marketing the products of its research efforts. In the past twelve months, we have introduced five of our genetically engineered pharmaceutical products into human clinical trials.

Financial Performance

Fiscal 1986 also marked the Company's first achievement of profitable operations, as we posted a net income of $548,000 compared with a loss of $7,763,000 in the prior year, while maintaining significant effort on new product development. Our strategy is to maintain profitability on an annual basis as we focus on bringing products to the market.

Our revenues in Fiscal 1986 were $23.4 million, an increase of 130% from the prior year's revenues of $10.1 million; 90% of these revenues were derived from operations: corporate partner revenue and product sales to the scientific research community.

The financial profile of the organization was further strengthened by the completion of our public equity offering which resulted in net proceeds of $37 million. A series of long-term commercial agreements were concluded which will help insure the availability of the resources necessary to bring our products to the marketplace.

Product Development Programs

The productivity of Amgen's product development efforts is demonstrated by bringing products out of the laboratory into the clinic. Amgen has five priority pharmaceutical products in Phase I human clinical testing: erythropoietin, interleukin 2, hepatitis B vaccine, gamma interferon and consensus interferon. Each of these products offers promise to improve the health and well-being of those suffering from a variety of malignant and chronic disorders, and emphasizes Amgen's commitment to help pioneer new and innovative pharmaceuticals through recombinant DNA technology.

Commercial Relationships

Amgen has entered into a select number of commercial alliances. The Company's partners offer substantial marketing, financial and manufacturing resources complementing Amgen's skills in product development. Of particular note during 1986 were the following:

Johnson & Johnson Under the terms of this agreement, Johnson & Johnson will join in the development and commercialization of Amgen's hepatitis B vaccine and interleukin 2. Johnson & Johnson is conducting clinical trials and holds exclusive marketing rights in defined world markets. In return, Amgen receives support for ongoing development efforts as well as payments for the achievement of technical and clinical milestones. Similarly, Johnson & Johnson will commercialize erythropoietin in areas outside the United States and Japan as well as in certain United States markets.

Arbor Acres Farm, Inc. Amgen has formed a 50-50 partnership (G. T. Systems) with this leading producer of poultry breeding stock. We are working together to apply our gene mapping and other advanced genetic engineering techniques to attempt to develop superior stock selection and breeding methods in order to improve feed efficiency and enhance disease resistance.

SmithKline Beckman SmithKline Beckman and Amgen are working on the development and commercialization of porcine somatotropin, a naturally occurring growth regulator which plays a key role in controlling growth and maturation in pigs. In addition to providing support for product development, SmithKline Beckman also made a $5 million equity investment in Amgen.

Eastman Kodak Amgen is working with Kodak to develop novel biosynthetic processes for the production of selected specialty chemicals in the areas of nutrition, industrial enzymes and other selected markets.

Research and Development

In addition to those products currently in clinical trials, the Company is continuing its pioneering efforts in the discovery and development of a new generation of Amgen products. With human granulocyte colony stimulating factor, platelet-derived growth factor, epidermal growth factor, insulin-like growth factors I and II, indigo, vitamins and enzyme programs currently under development, Amgen's portfolio of products remains strong.

Technology/Patents

Amgen continued to build upon its technology base during Fiscal 1986. The Company believes in the importance and value of its proprietary technology and is aggressively pursuing a strategy of protecting its technical leadership through patents and proprietary developments.

Fiscal 1986 marked the year of issuance of Amgen's first patents. With the patents already issued and more than 250 patent applications filed worldwide, the Company believes it will be in an excellent position to protect its proprietary technology and products.

Corporate Development

Fiscal 1986 saw significant staff and facilities expansion at both our Thousand Oaks and Boulder facilities. Staff additions focused on product development, fermentation and manufacturing in line with entering a more mature phase of the Company's development. Progress continued on Amgen's Chicago production facility as the Company prepares to expand its capabilities in large scale production and manufacturing.

It is the dedication and hard work of our staff which has enabled Amgen to emerge as a major biotechnology company. As of the end of Fiscal 1986, our staff reached 196, most of whom are shareholders who can share in the successes which they create.

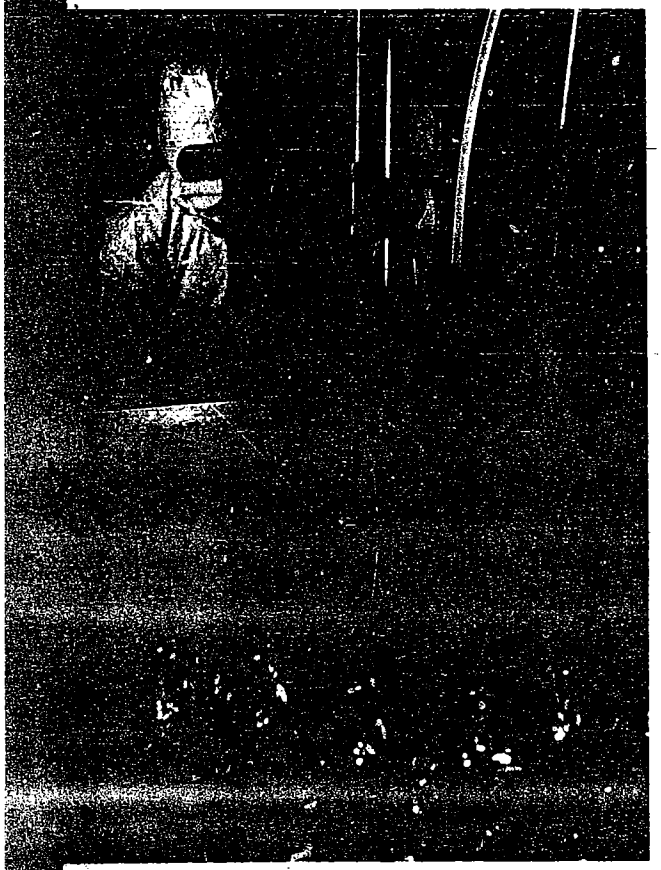
Beyond This Year's Success

The successes of the past 12 months now bring Amgen to the real challenge of proceeding with the evolution into a fully integrated company. Strengthened by our added equity capital and additional corporate partnerships, our staff is addressing this goal with confidence.

We are pleased to welcome those who joined the ranks of Amgen shareholders during the past year, and look forward to sharing our growth, progress and success with each of you during the coming years.

George B. Rathmann
Chairman of the Board,
President and
Chief Executive Officer

June 5, 1986

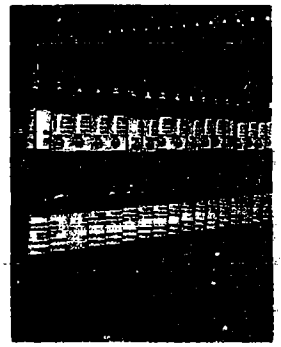


Making the transition into a fully integrated health care company is Amgen's primary objective. Amgen has established a GMP manufacturing facility at its Thousand Oaks, California headquarters.

Amgen was founded to capitalize on the advances in recombinant DNA and molecular biology which have made possible the development of a new industry capable of producing a wide variety of innovative and valuable products. Since its inception, Amgen has focused its efforts in four major areas of commercial interest: human pharmaceuticals, human diagnostics, animal health care and specialty chemicals. Within each of these fields, the Company's strategy is targeted toward developing products which will fully utilize the advantages of recombinant DNA technology over current methods of production as well as providing competitive advantages over the growing number of companies engaged in this field. The Company's strategy has generally been to invest its own resources in projects, deferring commercial collaborations until technical feasibility has been established.

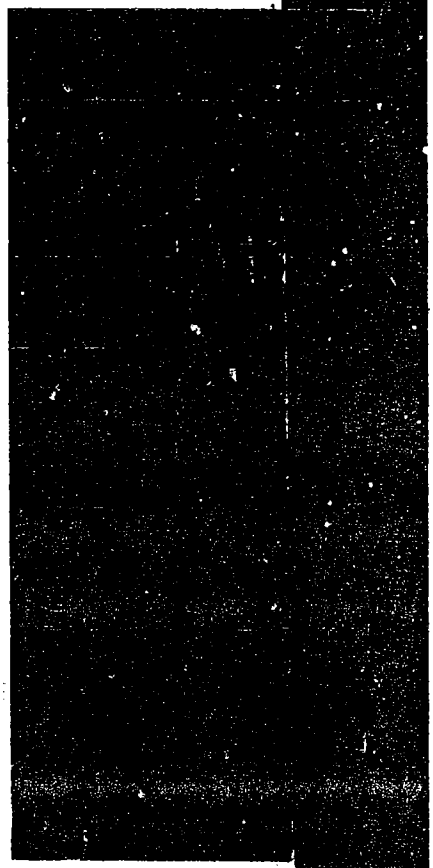
The Company has entered into a limited number of such commercial ventures with selected corporate partners in which Amgen provides manufacturing capabilities and technological leadership while the partners provide substantial marketing, financial and additional manufacturing resources for the commercialization of Amgen's products. This strategy has enabled the Company to maintain autonomy and control over its programs while retaining substantial rights to their commercial development. The value of pursuing such a strategy can best be illustrated in the portfolio of quality corporate relationships which has been established as well as the improved operating performance of the Company. The Company has secured sufficient financial resources to bring its products to market and maintain its rights to participate significantly in their commercial success.

Indicative of the company's progress and maturation: vials of recombinant DNA derived products sit in inventory prior to shipment to clinical investigators.



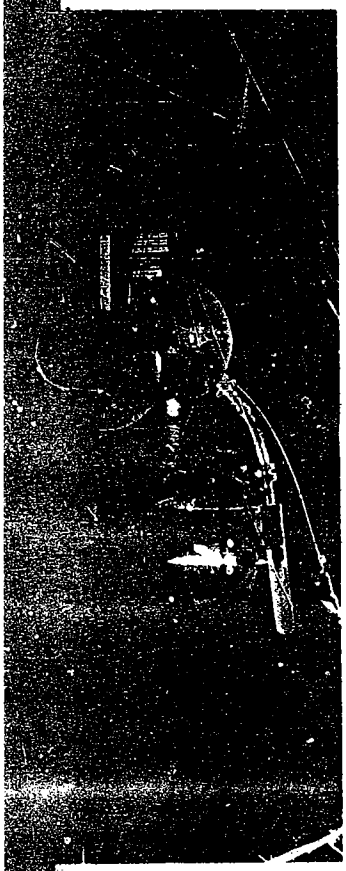
Amgen: On The Move Toward Commercialization.

The biotechnology industry was founded on the premise that recombinant DNA technology would make possible the production of a new generation of pharmaceutical products which would dramatically impact the practice of medicine. Amgen is transforming today's successes in molecular biology into tomorrow's innovative products. During the past twelve months, the Company has introduced five of its pharmaceutical products into human clinical testing, thereby accelerating the transition of products from the research laboratory to the commercial marketplace. Amgen's strategic business focus has enabled it to cross the boundary between pioneering science and industrial research, and favorably position the Company at the threshold of substantial commercial opportunities. Each of the products discussed below represents a success for Amgen and biotechnology as well as added hope to patients who are anxiously awaiting treatment for illnesses which have not responded to conventional therapy.



Increasing production efficiency of cell lines has been a key element in Amgen's technical success. Beth Anderson examines an experimental growth chamber to optimize conditions for cell growth and EPO production

Erythropoietin



Erythropoietin is a critical protein hormone which normally circulates in the bloodstream and is responsible for the regulation and control of red blood cell synthesis. An inability to synthesize or maintain the proper levels of erythropoietin often leads to anemia. Such anemias are most often associated with patients suffering from chronic kidney disease, especially those undergoing kidney dialysis. Currently, the treatment for this form of anemia is repeated blood or red cell transfusion, a costly process that may expose the patient to risks from serious infection.

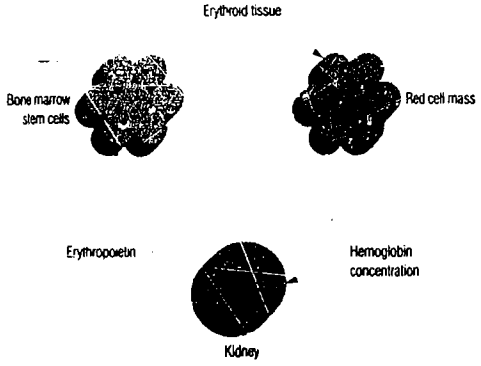
Although erythropoietin is produced naturally in the body, research to date has been hindered by an extremely limited supply and prohibitive costs of production. Now with readily available supplies of pure recombinant material, a result of the genetic engineering advances of Amgen scientists, these shortcomings have been overcome. With the cloning and expression of the gene for erythropoietin, Amgen has taken a major step toward developing a new and effective treatment for the anemias associated with renal disease.

Clinical testing began in December to investigate the application of erythropoietin for treating kidney dialysis patients.

Additional studies will be necessary to fully assess erythropoietin's utility in treating dialysis patients as well as the millions who suffer from chronic anemia around the world.

Amgen retains certain marketing rights to erythropoietin in the United States, and has entered into commercial relationships with Kirin Brewery Co. Ltd. of Japan and the Ortho Pharmaceutical Division of Johnson & Johnson relating to the marketing of the product in defined world markets. Amgen will manufacture and supply a substantial portion of erythropoietin requirements and in addition share in the downstream profits.

Erythropoietin is a key element in the body's ability to regulate and control the production of red blood cells



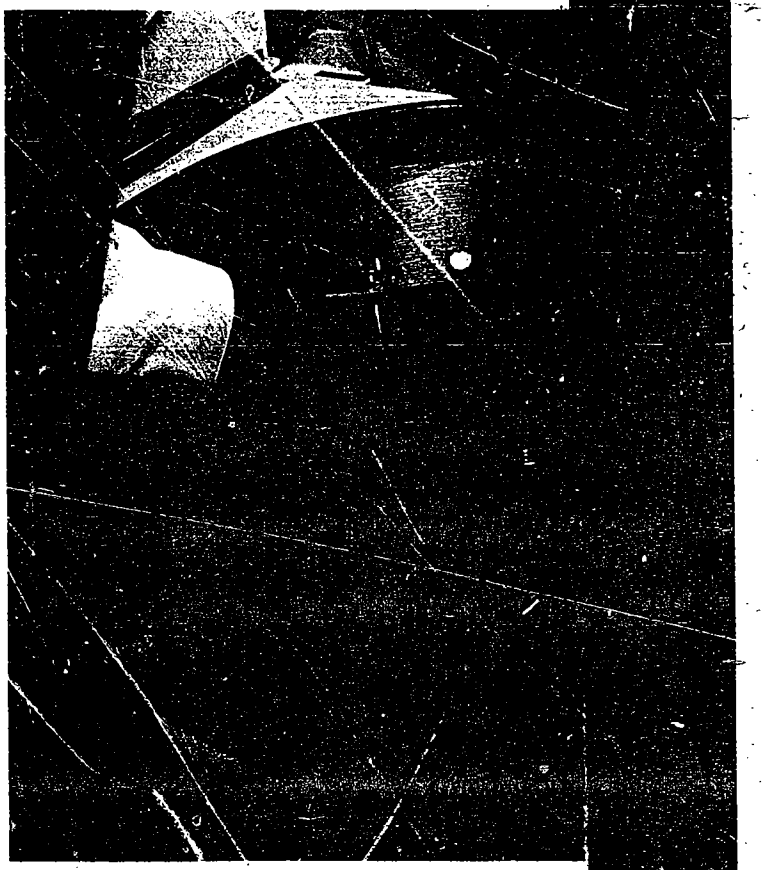
Providing the sterile media needed for maintaining Amgen's culture facility, Jody Davidson prepares to fill roller bottles used in the production of erythropoietin

Deciphering the information encoded in the nucleotide sequence of DNA, Keri Chen examines the pieces of the genetic puzzle which will enable him to deduce the complete structure of a gene

Interleukin 2 is an important component of a class of molecules known as lymphokines, which are substances produced in minute quantities by white blood cells. Preliminary studies have suggested that interleukin 2 may play an important role in the treatment of cancer patients. Recent publications of clinical studies at the National Cancer Institute reinforce the validity of the preliminary research.

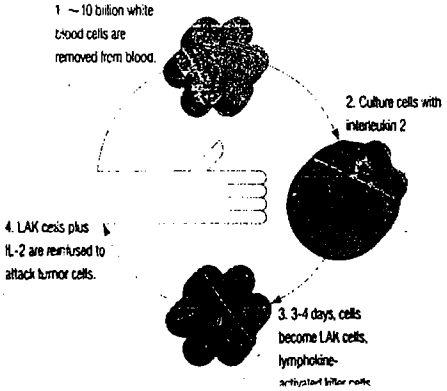
Amgen's approach in this area has been to develop an engineered variant of the naturally occurring molecule, which variant possesses superior properties. The Company's proprietary version of the molecule is easier to purify, exhibits greater stability and higher specific (biological) activity when compared to the natural molecule. The Company has filed patent applications on its interleukin 2 variant, a novel product of its gene synthesis technology.

The Company initiated human clinical testing of its interleukin 2 last December and is investigating its potential for antitumor therapy and for the treatment of immune deficiency. Johnson & Johnson has been granted worldwide marketing rights in return for ongoing support through product development. Amgen will manufacture the product for Johnson & Johnson in the United States and will share in the profits from worldwide sales.



Monitoring the purity of the product during the development process, Henry Sohea examines the results of a gel electrophoresis experiment.

Interleukin 2 plays a crucial role in activating killer T-cells, which can then seek out and destroy malignant cells in the body.

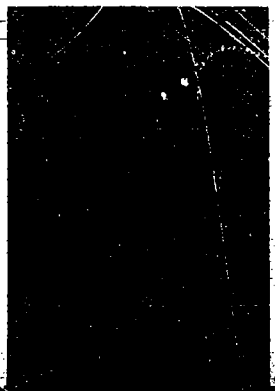


Hepatitis B is a major public health problem throughout the modern world, both in terms of mortality and morbidity. Medical studies suggest that the number of asymptomatic hepatitis B carriers may exceed 700,000 in the United States and more than 150 million worldwide. In addition, there is compelling evidence suggesting a strong link between hepatitis B infection and the subsequent development of liver cancer.

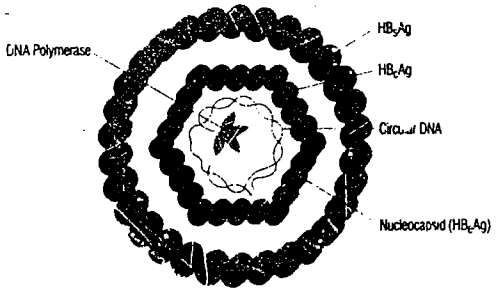
Although a commercial vaccine against hepatitis B has been developed by purifying immunogenic particles from infected blood, it has met with only limited acceptance in the market. The high cost to the patient and the concerns surrounding products derived from infected blood have been raised as issues which may have slowed general acceptance of such plasma-derived products.

Amgen scientists set out to develop a vaccine which would overcome the shortcomings of the plasma-derived vaccine at a cost which would make it available to a broader segment of the population at risk. Amgen scientists were able to clone the gene which coded for the hepatitis B surface antigen, the protein which is recognized by the human immune system and enables the body to develop a protective antibody response. Through the use of proprietary genetic engineering technology, Amgen scientists were able to manipulate yeast cells to produce surface antigen particles which carry no risk of infection yet are capable of eliciting a protective immune response.

Amgen began human clinical testing of its recombinant DNA-derived vaccine in October. The Company is expanding its trials in conjunction with its marketing partner, Johnson & Johnson, who holds worldwide rights to this product except for China.



Schematic diagram of hepatitis B virus particle



Consensus Interferon

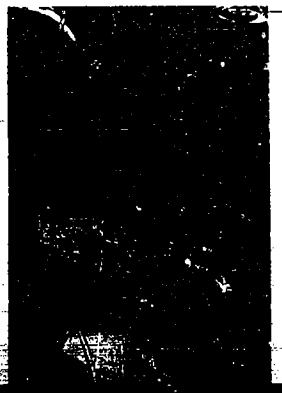
Interferon was originally described as an antiviral agent that protected cells from viral infection. With recent advances in molecular biology and protein biochemistry, it is now clear that the term interferon encompasses not one, but a group of related proteins that share antiviral activity but differ in molecular weight and amino acid sequence. In addition to the antiviral properties they exhibit, interferons appear to participate in numerous aspects of the immune response and have been shown to affect the biology and biochemistry of both normal and malignant cells.

Natural alpha interferons are produced from white blood cells. These alpha interferons comprise a family of related proteins with similar properties; however, there are structural differences that affect the biological activity of these individual interferons. Amgen has analyzed these differences in structure and function and has combined its proprietary gene synthesis technology with its expertise in developing high level expression systems to create engineered interferons with unique biological and physical characteristics. Of particular interest is Amgen's consensus interferon, which incorporates many predominant features of the known alpha and beta interferons. In initial laboratory and animal studies, this consensus interferon has demonstrated greater antiviral potency than any known alpha or beta interferon. Such properties offer prospects of lower doses per treatment and fewer side effects while achieving the same biological or therapeutic result obtained with larger doses of competitive products.

Amgen has retained exclusive worldwide rights to consensus interferon and has completed Phase I human clinical testing. In addition, the Company is also exploring application of this unique genetic engineering product to the animal health area, investigating its application in the treatment of a variety of infectious diseases which affect cattle.

Assaying the potency and biological activity of its recombinant DNA derived materials is an important element of Amgen's quality control over its products. Here Avtan Torrez analyzes results from an assay on gamma interferon.

Partial sequence of amino acid building blocks which comprise Amgen's consensus interferon, which incorporates many predominant features of the known alpha and beta interferons.



Subtype		-10																	20
IFN-α	A	C	D	L	P	Q	T	H	S	L	G	S	R	R	T	L	M	L	L
IFN-α	C	C	D	L	P	E	T	H	S	L	D	N	R	R	T	L	M	L	L
IFN-α	5	C	D	L	P	Q	T	H	S	L	S	N	R	R	T	L	M	I	M
IFN-α	6	C	D	L	P	Q	T	H	S	L	G	H	R	R	T	M	M	L	L
IFN-α	C	C	D	L	P	Q	T	H	S	L	G	N	R	R	A	L	I	L	L
IFN-α	C_1	C	D	L	P	Q	T	H	S	L	R	N	R	R	A	L	I	L	L
IFN-α	4b	C	D	L	P	Q	T	H	S	L	G	N	R	R	A	L	I	L	L
IFN-α	7a	C	D	L	P	Q	T	H	S	L	G	N	R	R	A	L	I	L	L
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IFN-α	F	C	D	L	P	Q	T	H	S	L	G	N	R	R	A	L	I	L	L
IFN-α	8	C	D	L	P	Q	T	H	S	L	G	H	R	R	A	L	I	L	L
IFN-α	Con$_1$	C	D	L	P	Q	T	H	S	L	G	S	R	R	A	L	I	L	L

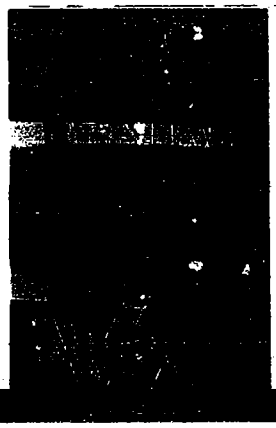
Gamma Interferon

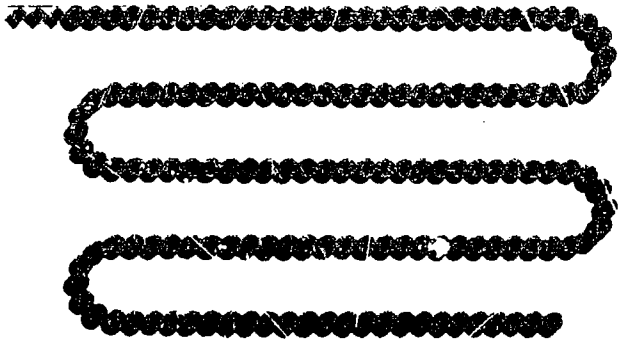
Another major thrust of Amgen's efforts in the field of interferon research is gamma interferon, an important immune regulator which appears to exhibit direct antitumor activity as well as antiviral activity. The Company's initial efforts have focused on the production of a synthetic gene for this molecule. Amgen scientists were able to construct the gene coding for the proposed structure of gamma interferon as well as various modifications, one of which was subsequently found to correspond more closely to naturally occurring gamma interferon.

Combining expertise in gene expression systems, scale up and protein purification, Amgen researchers produce sufficient quantities of gamma interferon to meet the anticipated clinical requirements, using processes readily scalable to meet anticipated market demand.

The American Cancer Society estimates that there are approximately 1,000,000 newly diagnosed cases of cancer each year in the United States and between 3,000,000-5,000,000 people in this country currently are receiving some form of treatment for this disease. Although there can be no assurance that any or all of these patients would respond to interferon therapy, the Company believes that they represent a target population for therapy and that some percentage of this population will benefit from such therapy.

Amgen has completed Phase I clinical testing in cancer patients and is beginning Phase II pilot studies for several indications. The Company currently retains exclusive worldwide marketing rights for its commercial development.





12 **Reinforcing the Commitment to Basic Research Discovery.**

Amgen maintains a commitment to the discovery of new and exciting molecules which offer the potential to be turned into novel and more effective biotherapeutic products.

During the past year, progress continued on human granulocyte colony stimulating factor, an important protein which plays a critical role in the proliferation, differentiation and maturation of precursor cells in the bone marrow. Collaborating with scientists at New York's Memorial Sloan Kettering Cancer Center where this molecule was first discovered, Amgen scientists cloned and expressed the gene for human granulocyte colony stimulating factor. Clinical efficacy will be examined during the coming year. Memorial Sloan Kettering Cancer Center is the world's largest institution devoted to patient care, research and education in Cancer.

Amgen is also developing other products in the human pharmaceutical field, particularly growth factors. We are exploring such products as epidermal growth factor and platelet-derived growth factor in wound healing as well as a potentially broader application of epidermal growth factor in treating ulcers by its ability to suppress gastric acid secretion. The Company is evaluating the role of the insulin-like growth factors in the regulation and control of growth of bone, muscle and connective tissue. Depending on the outcome of the preclinical testing, such programs may be pursued through clinical testing.

Amgen's basic research and development efforts have been a major source of new products, and the Company maintains a strong commitment to new product programs beyond those in human clinical and preclinical testing.

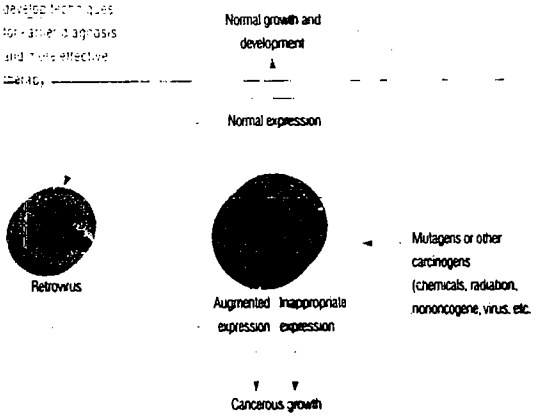
Forging new methods for the detection and diagnosis of disease.

The early and accurate diagnosis of disease is one of the most critical elements in the effective practice of medicine. Amgen has developed a strategy for the diagnostics field which complements its work in the development of therapeutics and provides an opportunity to capitalize on its technical leadership in synthetic DNA chemistry, hybridization probes and hybridomas in an effort to develop a new generation of more sensitive and specific diagnostic assays. Amgen has chosen to market the major portion of its *in vitro* diagnostic technology in conjunction with Abbott Laboratories, the worldwide leader in the field of immunodiagnostics today. Amgen's five-year, $19 million development program with Abbott represents a formidable alliance of pioneering science and innovative, aggressive marketing. Together, we hope to fulfill our goal of establishing market leadership based on scientific leadership.

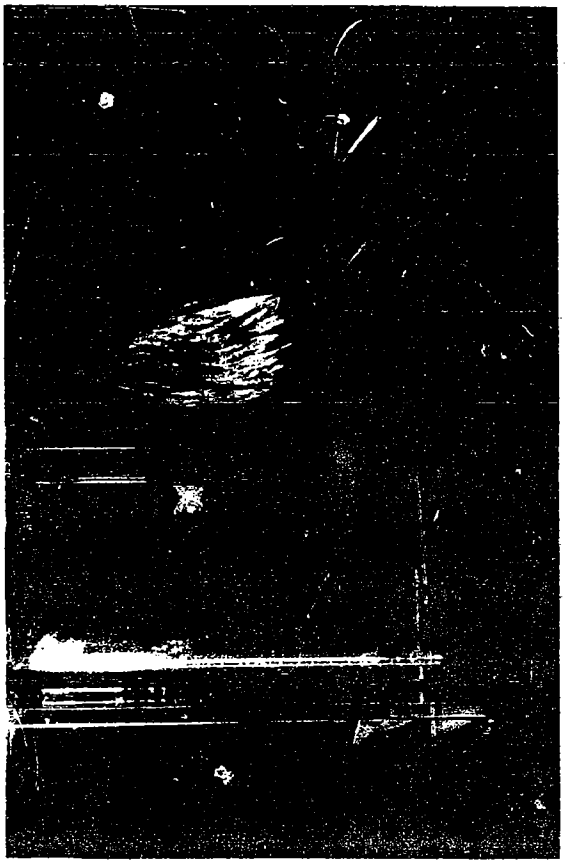
In advance of the approval of its products for pharmaceutical applications, Amgen, through its marketing arm Amgen Biologicals, has initiated a marketing effort which makes its pioneering recombinant DNA products available to the scientific research community. Although these products are limited to research use, the reception by research professionals at universities and institutions worldwide has been enthusiastic as sales continue to exhibit strong growth. In most cases, these materials are not routinely available in the same high purity, quality or biological activity from sources other than Amgen. Through Amgen Biologicals, we are establishing our success in the marketplace based on our success in the laboratory. By making new and innovative products available in this manner, Amgen will help to advance the understanding of the mechanism of action of these important molecules.

Opportunities for new products arise from both technical insight and an assessment of market opportunities. Bruce Altrock, Director of Biology and Biochemistry, and Deborah Clemens, Market Development Manager discuss new opportunities for Amgen Biologicals

By studying oncogenes and genes that are believed to play a critical role in the transformation of a normal cell into a malignant cell, Amgen scientists hope to unlock the mystery of the cancer gene and develop techniques for earlier diagnosis and more effective therapy.



Innovative solutions to today's farming challenges



Unravelling the genetic code. Bill Bachelier prepares a DNA sequencing gel to analyze the structure of the gene for porcine somatotropin. Amgen is pursuing this project with partner Smithkline Beecham

Early in its development, Amgen recognized that the animal health care business provided a considerable commercial opportunity for the application of the technology and expertise it had developed in the human health care area. The Company has focused its efforts primarily on growth regulators as well as the application of selected human therapeutic products to animal health care.

Animal growth promotant proteins have substantial commercial potential because they may improve feed efficiency and stimulate growth of animals, thus enabling the farmer to reduce

feed requirements or time to market. Unlike certain earlier growth regulators, such proteins are natural growth promotants that leave no known undesirable residues and offer the farmer the potential of increased yields of dairy and meat products. Amgen has developed high yield expression systems for bovine, porcine and chicken somatotropins and is currently pursuing commercialization programs with corporate partners in each of these areas.

Amgen is currently developing bovine somatotropin in conjunction with The Upjohn Company, a leading worldwide supplier of products to the dairy industry. Amgen and Upjohn studies have indicated that bovine somatotropin improves the milk yield production of dairy cows by up to 15%. The product is currently undergoing scale up to meet the anticipated market demands. Upjohn will market this product on a worldwide basis with Amgen sharing in the profits.

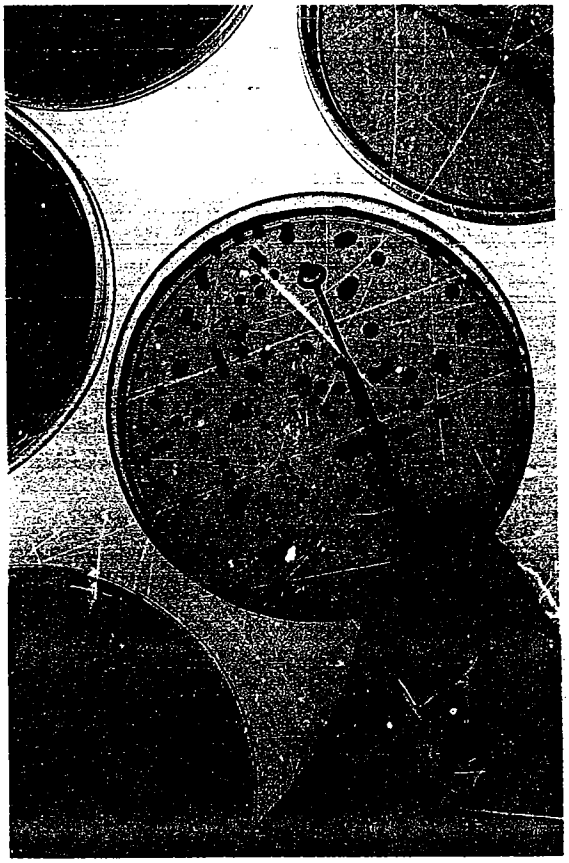
We are pleased to be working with SmithKline Beckman on the development and commercialization of porcine somatotropin. The key regulator responsible for the regulation and control of growth in swine, porcine somatotropin, can enhance an animal's feed efficiency by as much as 20%. Amgen will manufacture porcine somatotropin, while SmithKline Beckman will market the product worldwide and share profits from sales with Amgen. As part of its decision to work with Amgen on this project, SmithKline Beckman also made a $5 million equity investment in Amgen, and we welcome them as our newest corporate shareholder.

In conjunction with Arbor Acres Farm, Inc., a world leader in poultry breeding, Amgen has formed a 50-50 partnership (G. T. Systems) to explore the application of gene mapping and other advanced genetic techniques in order to develop superior breeding and selection methods with the goal of improved feed efficiency and enhanced disease resistance. In addition to the ongoing support which it receives for its work on this program, Amgen will also share in the revenues which result from the partnership products.

In addition to its work on natural growth promotants, the Company continues to explore the application of its human pharmaceutical products to the animal health care field. The application of biotechnology to the animal health care area is clearly established. At Amgen, we continue to seek innovative solutions to today's farming challenges.

The scale up and production of recombinant bovine somatotropin continued to accelerate during the past year. Shown here, scientist David Bengston oversees the production of BST prior to shipment to our partner Upjohn. Animal growth promotant proteins have substantial commercial potential because they may improve feed efficiency, and stimulate growth of animals thus enabling the farmer to reduce feed requirements or time to market.

Pioneering the application of biotechnology to the unique challenges of the chemical industry.



Amgen has successfully developed proprietary technology for the manipulation of gene clusters, significantly expanding the range of products that can be produced by genetic engineering. Amgen scientists have played a leadership role in demonstrating the feasibility and practicality of this approach establishing Amgen as the recognized leader in gene cluster technology

The successful application of recombinant DNA technology to the specialty chemical field poses a different set of issues from those in the pharmaceutical and health care area. Scale up, production requirements, cost constraints, capital investment and the complexity of biochemical pathways pose barriers of a different nature than those encountered in other areas of biotechnology application. As a result, initial efforts by many researchers in this area focused on the production of enzymes or simple proteins which are the products coded for by single genes. Broader applications to compounds that are the products of a series of chemical reactions

Production of pigments and dyestuffs has been an important element in Amgen's success in Specialty Chemicals. Researcher Tim Osslund examines various strains of microorganisms for the production of selected dyes and pigments.

required multiple genes (gene clusters) that function together. Amgen has successfully developed proprietary technology for the manipulation of these gene clusters, significantly expanding the range of products that can be produced by genetic engineering. Amgen scientists have played a leadership role in demonstrating the feasibility and practicality of transfering gene clusters. They were able to apply fundamental research discoveries leading to the microbial production of a variety of specialty chemicals, establishing Amgen as the recognized leader in gene cluster technology. The Company has demonstrated a series of technical successes in this area, and is currently developing candidate dyes, vitamins and industrial enzymes.

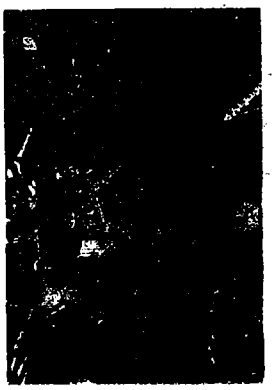
Amgen continues to build on its pioneering work on the microbial production of indigo dye. We have demonstrated the feasibility of producing a variety of related dyes and pigments through genetic engineering technology. The Company continues to explore the alternatives for bringing this technology to market either on its own or through commercial partnerships.

Combining gene synthesis and protein engineering capabilities, Amgen scientists succeeded in developing a series of novel genetically engineered enzymes which exhibit superior physical and chemical properties when compared to their natural counterparts. Amgen's proprietary technology in this area could have broad application in the production of enzymes for a number of industries.

Progress continues on our joint research and development agreement with Texaco, Inc. for the development of biotechnology-based processes for producing selected specialty chemicals by fermentation. We continue to meet the technical milestones of the program, and look forward to the continued success of this project.

During the past year, we were pleased to announce the finalization of a joint program with Eastman Kodak to develop novel biosynthetic processes for the production of certain specialty chemicals. The products under investigation will have uses in a variety of areas ranging from pharmaceuticals and nutrition to industrial enzymes and chemicals. We welcome our new chemical partner, and look forward to a productive relationship.

The technical success which we have enjoyed and the ability to attract high quality corporate partners have validated our strategy to leverage our technology by pioneering the application of biotechnology to the unique challenges of the chemical industry.



Results of Operations

Operations for the fiscal years ended March 31, 1986 and 1985 have been characterized by increasing revenues of $23,359,000 and $10,130,000, respectively, predominantly derived from corporate partners, including payments for achieving technological milestones, and interest income. Such increases have been accompanied by increasing expenses, predominantly for research and development. Research and development expenses have increased each year since inception, reflecting increases in personnel and expanded facilities dedicated to research and development applications. Research and development expenses for the fiscal years 1986 and 1985 were $17,424,000 and $13,823,000, respectively. General and administrative expenses have increased at approximately the same percentage rate as research and development expenses.

The Company's operations for each of the past three quarters have been profitable. Prior to the quarter ended September 30, 1985, the Company experienced net losses, as the level of corporate partner revenue and product sales was not sufficient to cover research and development and general and administrative expenses. The Company anticipates that its operating results may fluctuate significantly from period to period due to the timing of the achievement of contract milestones and the receipt of revenues from new corporate partner agreements.

1986-1985 Total revenues increased by $13,229,000 for the fiscal year ended March 31, 1986, as compared with the prior year, predominantly as a result of milestone and other corporate partner payments from Johnson & Johnson and Kirin Brewery Company, Ltd. Interest income decreased for the same period as a result of lower levels of invested funds.

In fiscal 1986 and 1985, the Company had two principal sources of revenue: revenues from its corporate partners and interest on short-term investments. Payments from Abbott Laboratories, Ortho Pharmaceutical Corporation, a subsidiary of Johnson & Johnson, Kirin Brewery Company, Ltd. and Kirin-Amgen, Inc. accounted for 83% and 63% of total revenues for the 1986 and 1985 fiscal years, respectively. See Note 3 of Notes to Consolidated Financial Statements. In addition to these sources, the Company has generated increasing revenues from sales of genetically engineered reagents for research purposes. Until revenues from product sales are substantial, the Company anticipates that corporate partner revenues and interest income will continue to be the Company's principal sources of revenues.

1985-1984 Total revenues for fiscal 1985 increased by $4,015,000 over fiscal 1984, reflecting an increase in corporate partner revenues of $3,781,000 principally as a result of payments from Kirin-Amgen, Inc. under an agreement which commenced in fiscal 1985. Two major customers in fiscal 1985, Abbott Laboratories and Kirin-Amgen, Inc., each contributed 10% or more of the Company's total revenues. Overall, interest income amounts in fiscal 1985 and fiscal 1984 were comparable as higher interest rates were offset by a lower average level of investment.

Equity in loss of affiliated company, in the amounts of $648,000 and $585,000 in fiscal 1986 and 1985, respectively, reflects the Company's share of the losses of Kirin-Amgen, Inc. that resulted principally from research and development payments by Kirin-Amgen, Inc. to Amgen and Kirin Brewery Co. Ltd.

Financial Condition

The Company's cash requirements have been satisfied from several major sources: proceeds from sales of equity securities, interest income and revenue from corporate partners. In addition, as of March 31, 1986, the Company had $6,665,000 in loan proceeds and loans available from the City of Chicago, which may be applied only for the purposes of constructing and equipping its facility in Chicago.

The Company continues to maintain a strong financial position with cash, cash equivalents and marketable securities of $66,645,000 at year-end 1986, an increase of $44,373,000 over fiscal 1985. This increase principally reflects the issuance of new equity during 1986. Through the public offering of 2,638,000 shares and the private placement of 313,356 shares of common stock, the Company raised approximately $42 million net of issuance costs in 1986. A significant portion of the proceeds of these equity offerings will be used for working capital, the expansion of Company manufacturing and research facilities and the funding of clinical trials of its products.

The Company's commitments for capital expenditures at March 31, 1986 were $1,791,000 for its Chicago facility and $293,000 for its California facilities, principally for laboratory equipment and leasehold improvements, compared with commitments of $2,433,000 and $1,234,000 for such facilities, respectively, at March 31, 1985. Commitments and certain future expenditures relating to the Chicago facility are expected to be funded from the loans from the City of Chicago described above. The Company from time to time may agree or elect to make payments in connection with the formation of joint ventures with corporate partners or in order to increase or maintain its interests in products subject to existing agreements with corporate partners.

The Company expects its existing funds, together with its loans from the City of Chicago, and cash payments under existing corporate partner agreements to be adequate to finance planned capital expenditures and operations for the foreseeable future.

Consolidated Balance Sheets

March 31, 1986 and 1985

		1986	1985
Assets	Current assets:		
	Cash and cash equivalents	$ 47,471,000	$ 3,246,000
	Marketable securities, at cost which approximates market	19,174,000	19,026,000
	Receivables:		
	Interest	1,154,000	370,000
	Corporate partners:		
	Related parties	504,000	314,000
	Others	679,000	—
	Notes receivable	10,000	129,000
	Other	237,000	163,000
	Prepaid expenses	557,000	430,000
	Total current assets	69,786,000	23,678,000
	Equipment and improvements, at cost—net	14,131,000	11,723,000
	Funds held by Trustee for construction	5,311,000	7,574,000
	Investments in affiliated companies	2,767,000	3,415,000
	Other assets	1,680,000	1,462,000
		$ 93,675,000	$ 47,852,000
Liabilities and Shareholders' Equity	Current liabilities:		
	Accounts payable	$ 1,022,000	$ 944,000
	Employee compensation and benefits	770,000	489,000
	Other accrued liabilities	503,000	91,000
	Unearned corporate partner revenue—primarily related parties	1,976,000	363,000
	Current portion of long-term debt	463,000	15,000
	Total current liabilities	4,734,000	1,902,000
	Long-term debt	8,361,000	8,245,000
	Commitments (Note 5)		
	Shareholders' equity:		
	Common stock, no par value; 27,200,000 shares authorized; outstanding—13,975,786 shares in 1986 and 10,865,781 shares in 1985, at stated value	101,519,000	59,192,000
	Deficit	(20,939,000)	(21,487,000)
	Total shareholders' equity	80,580,000	37,705,000
		$ 93,675,000	$ 47,852,000

See accompanying notes.

Consolidated Statements of Operations

Years ended March 31, 1986, 1985 and 1984

	1986	1985	1984
Revenues and other income:			
From corporate partners:			
Related parties	$11,389,000	$ 6,410,000	$ 2,734,000
Others	8,851,000	105,000	—
Product sales	856,000	568,000	49,000
Interest income	2,263,000	3,047,000	3,332,000
Total revenues and other income	23,359,000	10,130,000	6,115,000
Expenses:			
Research and development	17,424,000	13,823,000	8,758,000
General and administrative	4,600,000	3,459,000	2,212,000
Equity in loss of affiliated company	648,000	585,000	—
Interest expense, net	15,000	26,000	86,000
Total expenses	22,687,000	17,893,000	11,056,000
Income (loss) before income taxes	672,000	(7,763,000)	(4,941,000)
Provision for income taxes	124,000	—	—
Net income (loss)	$ 548,000	$(7,763,000)	$(4,941,000)
Net income (loss) per share	$ 05	$(.72)	$(.55)
Shares used in calculation of net income (loss) per share	11,644,000	10,797,000	8,969,000

See accompanying notes.

22 **Consolidated Statements of Shareholders' Equity**

Years ended March 31, 1986, 1985 and 1984

	Series A convertible preferred stock	Common stock	Series B restricted common stock	Deficit	Notes receivable from sale of common stock
Balance at March 31, 1983	$ 18,721,000	$ 423,000	$ 99,000	$(8,779,000)	$(355,000)
Net proceeds from issuance of 2,350,000 shares of common stock in initial public offering	—	39,080,000	—	—	—
Conversion into common stock in connection with initial public offering	(18,721,000)	18,820,000	(99,000)	—	—
Issuance of 294,232 shares of common stock in connection with the exercise of stock options	—	796,000	—	(4,000)	—
Payments received on notes receivable from sale of common stock	—	—	—	—	255,000
Net loss	—	—	—	(4,941,000)	—
Balance at March 31, 1984	—	59,119,000	—	(13,724,000)	(100,000)
Issuance of 108,450 shares of common stock in connection with the exercise of stock options	—	73,000	—	—	—
Payments received on notes receivable from sale of common stock	—	—	—	—	100,000
Net loss	—	—	—	(7,763,000)	—
Balance at March 31, 1985	—	59,192,000	—	(21,487,000)	—
Proceeds from issuance of 313,356 shares of common stock in a private placement	—	5,000,000	—	—	—
Net proceeds from issuance of 2,638,000 shares of common stock in a public offering	—	37,028,000	—	—	—
Issuance of 158,649 shares of common stock in connection with the exercise of stock options	—	299,000	—	—	—
Net income	—	—	—	548,000	—
Balance at March 31, 1986	$ —	$101,519,000	$ —	$(20,939,000)	$ —

See accompanying notes.

Consolidated Statements of Changes in Financial Position

Years ended March 31, 1986, 1985 and 1984

	1986	1985	1984
Cash, cash equivalents and marketable securities provided (used) by operations:			
Net income (loss)	$ 548,000	$(7,763,000)	$(4,941,000)
Depreciation and amortization	2,538,000	1,717,000	911,000
Equity in loss of affiliated company	548,000	585,000	—
Changes in:			
Receivables	(1,608,000)	(360,000)	143,000
Prepaid expenses	(127,000)	(70,000)	(197,000)
Accounts payable	78,000	(292,000)	672,000
Accrued liabilities	693,000	57,000	232,000
Unearned corporate partner revenue	1,613,000	118,000	245,000
Cash, cash equivalents and marketable securities provided (used) by operations	4,383,000	(6,008,000)	(2,935,000)
Investment activities:			
Purchases of equipment and improvements	(4,749,000)	(5,368,000)	(3,553,000)
Investment in affiliated company	—	(4,000,000)	—
Decrease (increase) in funds held by Trustee	2,263,000	164,000	(7,738,000)
Increase in other assets	(415,000)	(458,000)	(934,000)
Cash, cash equivalents and marketable securities used by investment activities	(2,901,000)	(9,662,000)	(12,225,000)
Financing activities:			
Net proceeds from issuances of common stock	42,327,000	73,000	39,876,000
Increase in long-term debt	564,000	217,000	7,990,000
Decrease in notes receivable from sale of common stock	—	100,000	255,000
Other	—	—	(529,000)
Cash, cash equivalents and marketable securities provided by financing activities	42,891,000	390,000	47,592,000
Increase (decrease) in cash, cash equivalents and marketable securities	$ 44,373,000	$(15,280,000)	$ 32,432,000

See accompanying notes.

Notes to Consolidated Financial Statements
March 31, 1986

1. Summary of significant accounting policies

Business The Company was founded to develop, manufacture and market products based on advanced biotechnology. To date, the principal activities have included research, development and manufacturing of products for preclinical and clinical testing and sale to the scientific research community.

Principles of consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Investments in affiliated companies which are 50 percent owned are accounted for on the equity method. All material intercompany transactions and balances have been eliminated in consolidation.

Depreciation and amortization Depreciation of laboratory equipment, furniture and office equipment is provided over their estimated useful lives on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the term of the lease, including periods covered by options which are expected to be exercised.

Revenues from corporate partners Revenues from corporate partners are recognized based on the terms and conditions of the related agreements, as follows:

Revenues related to agreements which provide for predetermined levels of effort and fixed funding over the life of the agreement are recognized over specified performance periods on a percentage of completion basis.

Revenues related to agreements which do not provide for fixed funding over the life of the agreement are recognized based on the specific levels of effort employed during the period.

Revenues related to milestone payments, which the Company has the irrevocable right to receive and retain, are recognized when the related milestone events are achieved. Payments received which are related to future performance are deferred and taken into income as earned over specified future performance periods.

Interest expense Interest cost on construction in progress is capitalized ($499,000 and $253,000 for the years ended March 31, 1986 and 1985, respectively). For the years ended March 31, 1986, 1985 and 1984, interest expense primarily relates to borrowings incurred in connection with the construction of a manufacturing facility and is net of interest income earned of approximately $421,000, $755,000 and $235,000, respectively, on the related unexpended proceeds (Note 4).

Investment tax credits Investment tax credits are recorded on the flow-through method.

Per share data Net income (loss) per share is based on the weighted average number of common shares outstanding. Shares issuable upon the exercise of stock option grants are included in the per share computation for the year ended March 31, 1986; however, they are not included in the per share computations for any other periods presented since their inclusion would be antidilutive.

Net loss per share for the year ended March 31, 1984 would have been $(.49) assuming the conversions of the Series A convertible preferred stock and Series B restricted common stock had taken place at the beginning of the year (Note 6).

Debt issuance costs Costs associated with the issuance of the industrial development bonds and UDAG loan (Note 4) have been deferred and are amortized on the bonds outstanding method.

2. Investments in affiliated companies

In June 1984, the Company contributed $4,000,000 and assigned all of its rights, title and interest in and granted a worldwide royalty-free, exclusive license to certain technology involving erythropoietin (EPO) for use in human therapeutics in exchange for a 50 percent interest in Kirin-Amgen, Inc., a California corporation (Kirin-Amgen). Kirin-Amgen was formed for the development, manufacture and worldwide marketing of EPO and other technologies. In May 1985, the Company assigned all of its rights, title and interest in and granted a worldwide royalty-free, exclusive license to certain technology related to the breeding of chickens and turkeys in exchange

2. Investments in affiliated companies (continued)

for a 50 percent interest in G.T. Systems, a California partnership. G.T. Systems was formed for the application of advanced genetic techniques to the selection and breeding of chickens and turkeys. The differences between the carrying amounts of the Company's investments in Kirin-Amgen and G.T. Systems and its underlying equity in their net assets is primarily attributable to the Company valuing the contributed technologies at zero for accounting purposes. The Company accounts for its equity in the net losses of Kirin-Amgen based on the relationship of its cash contribution to the total contributed cash received by Kirin-Amgen. The Company has recorded its investment in G.T. Systems at zero and, accordingly, is not required to recognize its equity in the net losses of G.T. Systems.

Unaudited summarized financial information on a combined basis for Kirin-Amgen and G.T. Systems at March 31, 1986 and 1985 and for the year ended March 31, 1986 and the period from May 11, 1984 (inception of Kirin-Amgen) to March 31, 1985 follows:

Financial position	March 31, 1986	March 31, 1985
Current assets, principally cash, cash equivalents and marketable securities	$13,891,000	$14,332,000
Intangible assets, net	6,883,000	6,867,000
Total assets	$20,774,000	$21,199,000
Current liabilities, principally related parties	$ 1,615,000	$ 670,000
Equity	19,159,000	20,529,000
Total liabilities and shareholders' equity	$20,774,000	$21,199,000

Operating results	Year ended March 31, 1986	May 11, 1984 to March 31, 1985
Revenues from corporate partner	$ 2,500,000	$ —
Interest income	1,275,000	1,371,000
Total revenues	3,775,000	1,371,000
Operating expenses, principally related to research and development	6,561,000	3,709,000
Amortization	2,584,000	1,133,000
Total expenses	9,145,000	4,842,000
Net loss	$(5,370,000)	$(3,471,000)

3. Revenues from corporate partners

Johnson & Johnson On September 30, 1985, Amgen and Ortho Pharmaceutical Corporation, a subsidiary of Johnson & Johnson (Johnson & Johnson), entered into an agreement whereby Johnson & Johnson was given certain rights to technologies involving three human therapeutic products in specified geographic areas of the world: EPO—certain U.S. rights, hepatitis B vaccine—worldwide (except China) and interleukin 2—worldwide. In connection with this agreement, Amgen has irrevocably received and will irrevocably receive certain milestone payments upon signing the agreement and achieving certain significant milestones during the development and regulatory approval process. In addition, Amgen will conduct certain research and development activities with respect to the technologies on behalf of Johnson & Johnson and will supply certain quantities of materials, primarily for clinical testing, to Johnson & Johnson. Amgen is paid for such services at specified amounts which exceed its research and development costs. Included in revenues from corporate partners—others for the year ended March 31, 1986 is $8,498,000 earned under this agreement principally related to milestone payments irrevocably received by Amgen.

3. Revenues from corporate partners (continued)

In addition, Johnson & Johnson was also granted an exclusive license to sell any resulting products related to such technologies in the aforementioned areas of the world. In return for such license, Amgen will receive certain profit sharing payments and royalties based on future sales. As of March 31, 1986, the Company has earned no profit sharing payments or royalties under this agreement.

Kirin-Amgen has entered into similar agreements with Johnson & Johnson. For the year ended March 31, 1986, Kirin-Amgen earned revenues of $2,500,000 (unaudited) related to the irrevocable receipt of a milestone payment from Johnson & Johnson under such agreements.

Kirin-Amgen Pursuant to the terms of agreements entered into with Kirin-Amgen, the Company conducts certain research and development activities on behalf of Kirin-Amgen and will supply certain quantities of materials, primarily for clinical testing, to Kirin-Amgen. The Company is paid for such research and development activities at specified amounts not to exceed their actual costs plus a stated percentage of such costs. Included in revenues from corporate partners—related parties for the years ended March 31, 1986 and 1985 is $3,096,000 and $3,003,000, respectively, related to these agreements with Kirin-Amgen. Included in the amount for the year ended March 31, 1985 is $1,000,000 related to the Company's achieving certain technological milestones in its research and development activities on behalf of Kirin-Amgen.

In June 1985, the Company and Kirin-Amgen entered into an agreement whereby Kirin-Amgen purchased the worldwide rights, exclusive of the United States, its territories and possessions, to EPO for human diagnostic and research applications. Included in revenues from corporate partners—related parties for the year ended March 31, 1986 is $650,000 related to this agreement.

As a part of the above agreements with Kirin-Amgen, the Company has been granted sole and exclusive licenses for the manufacture and sale of products in the United States, its territories and possessions developed from certain technologies. In return for such licenses, the Company has either paid Kirin-Amgen stated amounts upon the receipt of the licenses or will pay Kirin-Amgen royalties based on future sales. As of March 31, 1986, the Company had no sales of such products.

Abbott Laboratories In May 1983, Abbott Laboratories, a shareholder owning 1,250,000 shares of the Company's common stock as of March 31, 1986 (Abbott) entered into a five-year research and development agreement with the Company calling for payments aggregating approximately $19,000,000. Under this agreement, the Company will develop several types of diagnostic products which will be manufactured and sold by Abbott. The Company will receive a royalty on net sales to the year 2000 on products which use certain diagnostic technologies. Products in areas funded under the agreement cannot be sold by the Company either alone or with another corporate partner in most instances until the year 2000. Included in revenues from corporate partners—related parties for the years ended March 31, 1986, 1985 and 1984, are $3,815,000, $3,407,000 and $2,734,000, respectively, related to this agreement.

Kirin Brewery Company, Limited In January 1986, Kirin Brewery Company, Limited (Kirin), a Japanese corporation which owns the remaining 50% interest in Kirin-Amgen (Note 2), and Amgen entered into an agreement to collaborate in the further development of granulocyte colony stimulating factor. Pursuant to the terms of the agreement, Kirin will pay Amgen up to $6,000,000 for the performance of certain research and development activities and a $2,000,000 milestone payment with respect to such technology. Included in revenues from corporate partners—related parties for the year ended March 31, 1986 is $3,258,000 earned under this agreement, which includes the $2,000,000 milestone payment.

3. Revenues from corporate partners (continued)

In the event the related research and development activities under this agreement are successful, Kirin and Amgen will then transfer to Kirin-Amgen all of their rights, title and interest in such technology and be granted exclusive licenses with respect to such technology in Japan and the United States, its territories and possessions, respectively.

4. Long-term debt

Long-term debt consists of the following:	March 31, 1986	March 31, 1985
Industrial development bonds	$8,000,000	$8,000,000
UDAG loan, including accrued interest	811,000	232,000
Other	13,000	28,000
	8,824,000	8,260,000
Less current portion	(463,000)	(15,000)
	$8,361,000	$8,245,000

The industrial development bonds represent a December 1983 loan from the City of Chicago (the City). The unexpended funds ($5,311,000 at March 31, 1986) are invested in short-term cash investments and are stated at cost which approximates market. Such funds are to be used for the construction of a manufacturing facility, which is currently under construction. The bonds bear interest at a floating rate (7.2% at March 31, 1986) which is equal to 80% of a major bank's prime rate, with interest payable semi-annually. Commencing December 1, 1986, the bonds are payable in seventeen equal annual installments of $450,000 with a final payment of $350,000 due December 1, 2003. The bonds are collateralized by the manufacturing facility. Payment of the principal amount and up to $500,000 of accrued interest on such bonds has been guaranteed by a nonaffiliated party through 1988. In connection with such guaranty, the Company is required to maintain unencumbered cash, cash equivalents and marketable securities of at least $15,000,000 on a quarterly and yearly basis. In the event the Company does not comply with this requirement, it is required to pledge as collateral an amount equal to twice the difference between $15,000,000 and the actual amount of unencumbered cash, cash equivalents and marketable securities at such date, up to a maximum of $4,500,000.

In connection with an Urban Development Action Grant received by the City, Amgen and the City entered into a loan agreement (the UDAG loan) whereunder the Company may borrow up to $2,090,000 for the construction of the above noted manufacturing facility. Amounts borrowed accrue simple interest as follows: 14% per annum through September 30, 1985, 15% per annum for the period October 1, 1985 through September 30, 1988 and 16% per annum for the period October 1, 1988 through September 30, 1994. No payments under the loan are required through September 30, 1988 and monthly all accrued interest is added to the outstanding principal balance. Commencing October 1, 1988, the outstanding principal balance, including interest accrued through September 30, 1988, is payable in seventy-two equal monthly installments, with interest on the unpaid balance due monthly. The UDAG loan is secured by the manufacturing facility, with such security being subordinate to that of the industrial development bonds.

At March 31, 1986, long-term debt matures as follows: 1987—$463,000; 1988—$450,000; 1989—$518,000; 1990 and 1991—$585,000 per year and $6,223,000 due thereafter.

5. Commitments

Lease commitments The Company leases certain land, office and laboratory facilities and equipment under noncancellable lease agreements which expire on various dates through 2008. Certain of the lease agreements require the Company to pay operating costs, including property taxes, insurance and maintenance costs and contain renewal options at amounts adjusted for changes in the consumer price index.

5. Commitments (continued)

Future minimum lease payments under noncancellable operating leases at March 31, 1986 are as follows:

Fiscal year ending March 31	
1987	$ 1,143,000
1988	1,086,000
1989	1,044,000
1990	1,110,000
1991	1,105,000
Thereafter	7,330,000
	$12,818,000

Rent expense for operating leases was approximately $710,000, $529,000 and $433,000 for the years ended March 31, 1986, 1985 and 1984, respectively.

Research grants The Company has entered into research grants with various institutions. Several members of the Company's Scientific Advisory Board have been appointed by the respective institutions as the project leaders for the research grants. The aggregate consulting fees paid to major consultants and members of the Scientific Advisory Board and/or grants made to institutions they represent for the years ended March 31, 1986, 1985 and 1984 aggregated approximately $188,000, $112,000 and $208,000, respectively. As of March 31, 1986, the Company has sold members of the Scientific Advisory Board and major consultants approximately 450,000 shares of common stock and such individuals have approximately 98,000 nonqualified stock options outstanding.

Other commitments At March 31, 1986, the Company had contractual commitments for the construction of its manufacturing facility in Chicago (Note 4) which aggregated approximately $1,791,000 and had other purchase commitments, principally for laboratory equipment and leasehold improvements, aggregating approximately $293,000.

6. Capital stock

At March 31, 1986 and 1985, the Company's authorized capital includes 5,000,000 shares of no par value preferred stock and 27,200,000 shares of no par value common stock, of which 2,200,000 shares have been designated as Series B restricted common stock. In April 1986, the Company's Board of Directors adopted, subject to shareholder approval, an amendment to the Company's Articles of Incorporation whereby the designation of 2,200,000 shares of common stock as Series B restricted common stock has been eliminated.

In connection with the Company's initial public offering in June 1983, all of the then outstanding shares of preferred stock and Series B restricted common stock were automatically converted into two and one-half shares and one share of common stock, respectively. At March 31, 1986 and 1985, no preferred or Series B restricted shares were outstanding.

7. Stock option plans

In January 1981, the Company adopted a Nonqualified Stock Option Plan, which is a nonstatutory stock option plan covering the issuance of options that will not qualify as "incentive stock options". The Plan provides for the grant of options to selected employees and members of the Scientific Advisory Board. At March 31, 1986, shares of common stock reserved for issuance under this Plan number 274,775, as amended. Options granted have a maximum term of ten years, must be issued at an exercise price of at least 85% of the fair market value of the shares on the date granted and may not be transferred other than upon death.

In December 1981, shareholders approved the Company's 1981 Incentive Stock Option Plan. Under this Plan, as amended, options covering up to 1,482,729 shares of the Company's common stock may be granted to eligible employees or officers of the Company at an exercise price of not less than the fair market value of the stock on date of grant. The maximum term during which any option may be exercised shall be ten years from date of grant. To date, options have been granted with two to five-year vesting schedules.

7. Stock option plans (continued)

In March 1984, the Company adopted the 1984 Stock Option Plan. This 1984 Plan provides for the grant of options to purchase up to 500,000 shares of the Company's common stock. Options granted under this 1984 Plan may be designated as either nonqualified or incentive stock options. The terms and conditions of options granted under this 1984 Plan will be the same as those granted under the Company's Nonqualified Stock Option Plan or 1981 Incentive Stock Option Plan depending on the designation of the option. In January 1986, the Company's Board of Directors adopted, subject to shareholder approval, an amendment to the 1984 Plan increasing the number of shares available for option under this Plan to 1,700,000.

Stock option information with respect to the Company's stock option plans follows:

	Incentive stock options		Nonqualified stock options	
Fiscal years	Shares	Price	Shares	Price
Balance March 31, 1983	438,078	$.67	90,000	$4
Granted	399,753	$6.13-10.67	370,624	$5.21-10.67
Exercised	(114,806)	$.67	(90,000)	$4
Cancelled	(25,182)	$.67-10.67	(227,249)	$10.67
Balance March 31, 1984	697,843	$.67-10.67	143,375	$5.21-7.88
Granted	190,000	$4.40-5.75	267,701	$4.50-5.63
Exercised	(116,329)	$.67	—	—
Cancelled	(22,812)	$.67-10.67	(48,701)	$4.50-7.88
Balance March 31, 1985	748,702	$.67-10.67	362,375	$4.50-5.63
Granted	221,114	$6.87-18.50	61,886	$6.50
Exercised	(146,728)	$.67-10.67	(15,175)	$4.50
Cancelled	(13,800)	$.67-10.67	(4,875)	$4.50
Balance March 31, 1986	809,288	$.67-$18.50	404,211	$4.50-6.50

At March 31, 1986, 271,003 and 96,671 incentive stock options and nonqualified stock options, respectively, were exercisable and 1,227,969 stock options, including 1,200,000 related to the 1984 Plan which are subject to shareholder approval, were available for future grants. During the year ended March 31, 1986 and 1985, stock options for 37,000 and 55,927 shares of common stock were exercised by tendering 3,254 and 7,879 previously owned shares of the Company's common stock, respectively.

8. Income taxes

The provision for income taxes for the year ended March 31, 1986 relates to state income taxes. The provision for federal income taxes for the year ended March 31, 1986 was offset by the utilization of research and experimental and investment tax credits of $268,000 and $73,000, respectively, earned during the current year and the carryforward of research and experimental credits of $205,000 earned in a prior year.

The provision for income taxes for the year ended March 31, 1986 varies from taxes based on the federal statutory rate of 46% as follows:

Statutory rate applied to income before income taxes	$ 309,000
Tax effect of equity in loss of affiliated company, not deductible for income tax purposes	298,000
State income taxes, net of federal income tax benefit	67,000
Research and experimental and investment tax credits	(546,000)
Other	(4,000)
	$ 124,000

8. Income taxes (continued)

At March 31, 1986, the Company has tax-basis net operating loss, research and experimental credit and investment tax credit carryovers available to offset future federal income taxes payable which expire as follows:

	Net operating losses	Research and experimental credits	Investment tax credits
1997	$ 252,000	$ 252,000	$ 102,000
1998	7,161,000	560,000	92,000
1999	5,527,000	612,000	84,000
2000	7,289,000	767,000	105,000
2001	—	268,000	73,000
	$20,229,000	$ 2,459,000	$ 456,000

For financial reporting purposes, the Company has available net operating loss, research and experimental credit and investment tax credit carryforwards of approximately $20,841,000, $1,986,000 and $383,000, respectively. Net operating loss carryforwards are different for income tax and financial reporting purposes primarily due to differences in depreciation rates and the utilization, for financial reporting purposes, of credit carryforwards prior to loss carryforwards.

9. Composition of various balance sheet accounts

The composition of various balance sheet accounts follows:

	March 31, 1986	March 31, 1985
Equipment and improvements:		
Laboratory equipment	$ 8,443,000	$ 6,631,000
Furniture and office equipment	798,000	706,000
Leasehold improvements	5,634,000	4,388,000
Construction in progress	4,579,000	3,102,000
	19,454,000	14,827,000
Less accumulated depreciation and amortization	(5,323,000)	(3,104,000)
Net equipment and improvements	$14,131,000	$11,723,000
Other assets:		
Unamortized debt issuance costs	$ 685,000	$ 844,000
Notes receivable	818,000	505,000
Other	177,000	113,000
	$ 1,680,000	$ 1,462,000

10. Notes receivable

Included in other assets are notes receivable from officers and key employees. The notes receivable from officers ($400,000 and $30,000 at March 31, 1986 and 1985, respectively) are full recourse promissory notes secured by shares of the Company's common stock owned by such officers. Such notes bear interest, which is adjusted quarterly, equal to the average interest rate earned by the Company on its short-term investments. Notes receivable from key employees have been issued in connection with relocation expenses and bear interest at rates ranging from 0% to 12% per annum. The notes receivable from officers and key employees are due generally five years from date of issuance or termination of employment if earlier. The notes receivable for the sale of common stock were recourse notes with interest at 9% per annum and were repaid in full during the year ended March 31, 1985.

The Board of Directors and Shareholders of Amgen

We have examined the accompanying consolidated balance sheets of Amgen at March 31, 1986 and 1985, and the related consolidated statements of operations, shareholders' equity and changes in financial position for each of the three years in the period ended March 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Amgen at March 31, 1986 and 1985, and the consolidated results of operations and changes in financial position for each of the three years in the period ended March 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Los Angeles, California
April 30, 1986

Corporate Headquarters	1900 Oak Terrace Lane, Thousand Oaks, California 91320, (805) 499-5725
SEC Form 10-K	A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K is available without charge upon written request to: Corporate Secretary, Amgen, 1900 Oak Terrace Lane, Thousand Oaks, California 91320.
Transfer Agent and Registrar	Morgan Guaranty Trust Company of New York 30 West Broadway, New York, New York 10015
Counsel	Cooley, Godward, Castro, Huddleson & Tatum San Francisco, California Palo Alto, California
Auditors	Arthur Young & Company Los Angeles, California
Annual Meeting	**The Annual Meeting will be held on Monday, July 21, 1986 at 10:30 a.m. at the Biltmore Hotel, 506 South Grand Avenue, Los Angeles, California 90071.**

Price Range of Common Stock

Fiscal 1986	High	Low
4th Quarter	$18½	$12½
3rd Quarter	14⅝	8⅛
2nd Quarter	8¼	6⅞
1st Quarter	8⅜	5¼
Fiscal 1985		
4th Quarter	$ 7¼	$ 4⅝
3rd Quarter	5	3¾
2nd Quarter	5⅞	4⅝
1st Quarter	6	4¾

The common stock of the Company is traded in the National Market System under NASDAQ symbol AMGN. The above table sets forth the high and low closing prices of the common stock for the quarters indicated as reported by NASDAQ. As of March 31, 1986, there were approximately 1,527 stockholders of record. No dividends have been paid on the common stock.

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