AMYLIN PHARMACEUTICALS INC
Form 10-Q
July 31, 2008

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 June 30, 2008

OR

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

Commission File Number: 0-19700

AMYLIN PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**33-0266089** (I.R.S. Employer Identification No.)
9360 Towne Centre Drive **San Diego, California** (Address of principal executive offices)	**92121** (Zip code)

(858) 552-2200
(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding on July 25, 2008**
Common Stock, $.001 par value	137,241,585

AMYLIN PHARMACEUTICALS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

AMYLIN PHARMACEUTICALS, INC.

Consolidated Balance Sheets
(in thousands, except per share data)

	June 30, 2008 (unaudited)	December 31, 2007 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 130,818	$ 422,232
Short-term investments	760,046	708,183
Accounts receivable, net	65,638	73,579
Inventories, net	100,166	100,214
Other current assets	33,480	32,100
Total current assets	1,090,148	1,336,308
Property, plant and equipment, net	548,290	390,301
Other long-term assets, net	27,049	28,082
Debt issuance costs, net	17,781	19,520
	$ 1,683,268	$ 1,774,211
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 41,202	$ 37,530
Accrued compensation	48,369	56,428
Payable to collaborative partner	61,429	66,116
Other current liabilities	89,296	122,924
Current portion of deferred revenue	4,286	4,286
Current portion of long-term note payable	15,625	
Total current liabilities	260,207	287,284
Other long-term obligations, net of current portion	32,270	31,023
Deferred revenue, net of current portion	943	3,086
Long-term note payable, net of current portion	109,375	125,000
Convertible senior notes	775,000	775,000
Commitments and contingencies (Note 10)		
Stockholders equity:		
Common stock, $.001 par value, 450,000 shares authorized, 137,221 and 135,044 issued and outstanding at June 30, 2008 and December 31, 2007, respectively	137	135
Additional paid-in capital	2,077,357	1,987,453
Accumulated deficit	(1,567,933)	(1,434,320)
Accumulated other comprehensive loss	(4,088)	(450)
Total stockholders equity	505,473	552,818
	$ 1,683,268	$ 1,774,211

See accompanying notes to consolidated financial statements.

AMYLIN PHARMACEUTICALS, INC.

Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenues:				
Net product sales	$ 200,335	$ 167,337	$ 379,056	$ 329,340
Revenues under collaborative agreements	21,684	29,616	40,200	39,591
Total revenues	222,019	196,953	419,256	368,931
Costs and expenses:				
Cost of goods sold	24,682	14,362	46,706	29,572
Selling, general and administrative	111,088	93,121	209,331	180,908
Research and development	75,401	71,691	152,607	131,255
Collaborative profit sharing	78,950	70,355	148,851	137,302
Total costs and expenses	290,121	249,529	557,495	479,037
Operating loss	(68,102)	(52,576)	(138,239)	(110,106)
Interest and other income	6,974	9,918	18,004	19,322
Interest and other expense	(3,688)	(2,365)	(13,378)	(3,653)
Net loss	$ (64,816)	$ (45,023)	$ (133,613)	$ (94,437)
Net loss per share, basic and diluted	$ (0.47)	$ (0.34)	$ (0.98)	$ (0.72)
Shares used in computing net loss per share, basic and diluted	137,142	131,774	136,500	131,416

See accompanying notes to condensed consolidated financial statements.

AMYLIN PHARMACEUTICALS, INC.

Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six months ended June 30, 2008	Six months ended June 30, 2007
Operating activities:		
Net loss	$ (133,613)	$ (94,437)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	15,639	9,042
Stock-based compensation	29,002	29,056
Other non-cash expenses, net	2,124	899
Changes in operating assets and liabilities:		
Accounts receivable, net	7,941	3,809
Inventories	48	(18,877)
Other current assets	(2,557)	(10,784)
Accounts payable and accrued liabilities	1,902	21,664
Accrued compensation	13,220	(4,172)
Payable to collaborative partner	(4,687)	5,893
Deferred revenue	(2,143)	(2,143)
Other assets and liabilities, net	438	5,832
Net cash flows used for operating activities	(72,686)	(54,218)
Investing activities:		
Purchases of short-term investments	(642,520)	(291,494)
Sales and maturities of short-term investments	588,196	231,016
Purchase of property, plant and equipment, net	(173,403)	(141,979)
Increase in other long-term assets	(510)	(12,720)
Net cash flows used for investing activities	(228,237)	(215,177)
Financing activities:		
Issuance of common stock, net	9,509	23,357
Issuance of convertible senior notes, net		558,797
Net cash flows provided by financing activities	9,509	582,154
Change in cash and cash equivalents	(291,414)	312,759
Cash and cash equivalents at beginning of period	422,232	66,640
Cash and cash equivalents at end of period	$ 130,818	$ 379,399
Supplemental disclosure of cash flow information:		
Property, plant and equipment additions in other current liabilities	$ 13,702	$ 2,759
Non-cash financing activities:		
Issuance of common stock for contingent share settled obligation	$ 30,000	$
Shares contributed as employer 401(k) match	$ 4,284	$ 5,819
Shares contributed to employee stock ownership plan	$ 16,996	$

See accompanying notes to consolidated financial statements.

AMYLIN PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements
June 30, 2008
(unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

The information contained herein has been prepared in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X. The information as of June 30, 2008, and for the three month and six month periods ended June 30, 2008 and 2007, are unaudited. In the opinion of management, the information reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for a full year. The balance sheet at December 31, 2007, has been derived from the audited consolidated financial statements at that date but does not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For more complete financial information, these financial statements should be read in conjunction with the audited consolidated financial statements included in Amylin Pharmaceuticals, Inc. s (referred to as the Company or Amylin) Annual Report on Form 10-K for the year ended December 31, 2007.

Revenue Recognition

Net Product Sales

The Company sells BYETTA® (exenatide) injection and SYMLIN® (pramlintide acetate) injection primarily to wholesale distributors, who, in turn, sell to retail pharmacies and government entities. Product sales are recognized when delivery of the products has occurred, title has passed to the customer, the selling price is fixed or determinable, collectability is reasonably assured and the Company has no further obligations. The Company records allowances for product returns, rebates and wholesaler chargebacks, wholesaler discounts, and prescription vouchers at the time of sale and reports product sales net of such allowances. The Company must make significant judgments in determining these allowances. If actual results differ from the Company s estimates, the Company will be required to make adjustments to these allowances in the future.

The Company reports all United States BYETTA and SYMLIN product sales. With respect to BYETTA, the Company has determined that it is qualified as a principal under the criteria set forth in Emerging Issues Task Force (EITF), Issue 99-19, *Reporting Gross Revenue as a Principal vs. Net as an Agent,* based on the Company s responsibilities under its contracts with Eli Lilly and Company, or Lilly, which include manufacture of product for sale in the United States, responsibility for establishing pricing in the United States, distribution, ownership of product inventory and credit risk from customers. Accordingly the Company records all United States products sales of BYETTA.

Revenues Under Collaborative Agreements

Amounts received for upfront product and technology license fees under multiple-element arrangements are deferred and recognized over the period of such services or performance if such arrangements require on-going services or performance. Non-refundable amounts received for substantive milestones are recognized upon achievement of the milestone. Amounts received for sharing of development expenses are recognized in the period in which the related expenses are incurred. Any amounts received prior to satisfying these revenue recognition criteria will be recorded as deferred revenue.

Collaborative Profit-Sharing

Collaborative profit-sharing represents Lilly s 50% share of the gross margin for BYETTA sales in the United States.

Accounts Receivable

Trade accounts receivable are recorded net of allowances for cash discounts for prompt payment, doubtful accounts, product returns and chargebacks. Allowances for rebate discounts and distribution fees are included in other current liabilities in the accompanying consolidated balance sheets. Estimates for allowances for doubtful accounts are determined based on existing contractual obligations, historical payment patterns and individual customer circumstances. The allowance for doubtful accounts was $0.3 million and $0.2 million at June 30, 2008 and December 31, 2007, respectively.

Research and Development Expenses

Research and development costs are expensed as incurred and include salaries and bonuses, benefits, non-cash stock-based compensation, license fees, milestones under license agreements, costs paid to third-party contractors to perform research, conduct clinical trials, and develop drug materials and delivery devices; and associated overhead expenses and facilities costs. Clinical trial costs, including costs associated with third-party contractors, are a significant component of research and development expenses. Invoicing from third-party contractors for services performed can lag several months. The Company accrues the costs of services rendered in connection with such activities based on its estimate of management fees, site management and monitoring costs, and data management costs. Actual clinical trial costs may differ from estimates and are adjusted in the period in which they become known.

Per Share Data

Basic and diluted net loss applicable to common stock per share is computed using the weighted average number of common shares outstanding during the period. Common stock equivalents from stock options and warrants of 3.2 million for both the three and six months ended June 30, 2008, and common stock equivalents of 8.1 million and 7.9 million from stock options and warrants for the three and six months ended June 30, 2007, respectively, are excluded from the calculation of diluted loss per share for all periods presented because the effect is antidilutive. Common stock equivalents from shares underlying our convertible senior notes of 15.2 million for the three and six months ended June 30, 2008, and 8.1 million and 7.0 million for the three and six months ended June 30, 2007, respectively, are also excluded from the calculation of diluted loss per share because the effect is antidilutive. In future periods, if the Company reports net income and the common share equivalents for our convertible senior notes are dilutive, the common stock equivalents will be included in the weighted average shares computation and interest expense related to the notes will be added back to net income to calculate diluted earnings per share.

Accounting for Stock-Based Compensation

Effective January 1, 2006, the Company adopted the fair value method of accounting for stock-based compensation arrangements in accordance with Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards (SFAS) No. 123 (SFAS 123R), *Share-Based Payment,* which establishes accounting for non-cash, stock-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period, which for the Company is generally the vesting period. The Company adopted SFAS 123R using the modified prospective method. Under the modified prospective method, prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new awards and to awards that are outstanding on the effective date and subsequently modified or cancelled. Estimated non-cash, compensation expense for awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro-forma disclosure purposes under SFAS 123, *Accounting for Stock-Based Compensation.*

Total estimated stock-based compensation was as follows (in thousands, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Selling, general and administrative expenses	$ 9,054	$ 9,539	$ 17,386	$ 17,520
Research and development expenses	5,886	6,200	11,616	11,536
	$ 14,940	$ 15,739	$ 29,002	$ 29,056
Net stock-based compensation expense, per common share:				
Basic	$ 0.11	$ 0.12	$ 0.21	$ 0.22
Diluted	$ 0.11	$ 0.12	$ 0.21	$ 0.22

The Company recorded $14.9 million and $15.7 million of total non-cash, stock-based compensation expense during the three months ended June 30, 2008 and 2007, respectively, and $29.0 million and $29.1 million of total non-cash, stock-based compensation expense during the six months ended June 30, 2008 and 2007, respectively, in all cases related to stock-based awards consisting of stock options and employee stock purchase rights. At June 30, 2008, total unrecognized estimated compensation cost related to non-vested stock-based awards granted prior to that date was $112.3 million, which is expected to be recognized over a weighted-average period of 2.5 years. The Company issued 0.2 million and 0.4 million shares upon the exercise of stock options in the three and six months ended June 30, 2008, respectively.

In addition to the stock-based compensation discussed above, the Company also recorded $5.3 million, of which $3.0 million is including in selling general and administrative expenses, and $2.3 million is included in research and development expenses, and $10.7 million, of which $5.8 million is included in selling general and administrative expenses, and $4.9 million is included in research and development expenses, of expense associated with its Employee Stock Ownership Plan, or ESOP, during the three months and six months ended June 30, 2008, respectively. There was no expense for the ESOP during the three and six months ended June 30, 2007 as the ESOP was not adopted until December 2007.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Amylin Europe Limited, Amylin Puerto Rico LLC, Amylin Ohio LLC, and Amylin Investments LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Recently Issued Accounting Pronouncements

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1 (FSP No. APB 14-1), *Accounting for Convertible Debt Instruments that may be Settled in Cash Upon Conversion (Including Partial Cash Settlement).* FSP No. APB 14-1 establishes that the liability and equity components of convertible debt instruments within the scope of FSP APB No. 14-1 shall be separately accounted for in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The carrying amount of the liability component of the convertible debt instrument will be determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying value of the equity component will be determined by deducting the fair value of the liability component from the initial proceeds ascribed to the convertible debt instrument as a whole. Related transaction costs shall be allocated to the liability and equity components in proportion to the allocation of proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. The excess of the principal amount of the liability component over its carrying amount shall be amortized to interest cost using the interest method. FSP No. APB 14-1 is effective for the Company on January 1, 2009 and shall be applied retrospectively to all periods presented with the cumulative effect of the change in accounting principle on periods prior to those presented recognized as of the beginning of the first period presented. Early adoption is not permitted. The Company expects that the adoption of FSP No. APB 14-1 will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51.* SFAS No. 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 141R and SFAS No. 160 are effective for the Company on January 1, 2009. Early adoption is not permitted. The Company is currently evaluating the impact that adoption of SFAS No. 141R and SFAS No. 160 will have on its consolidated financial statements.

In June 2007, the FASB ratified the EITF consensus on EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities.* EITF Issue No. 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. Entities should continue to evaluate whether they expect the goods to be delivered or services to be rendered. If an entity does not expect the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. The Company adopted EITF Issue No. 07-3 on January 1, 2008. The adoption of EITF Issue No. 07-3 did not have a material impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 gives the Company the irrevocable option to carry many financial assets and liabilities at fair values, with changes in fair value recognized in earnings. The Company adopted SFAS No. 159 on January 1, 2008. The adoption of SFAS No. 159 did not have a material impact on the Company s consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 prioritizes the inputs used in measuring fair value into the following hierarchy:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and

Level 3 Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The Company adopted SFAS No. 157 on January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on the Company s consolidated financial statements.

2. Short-term Investments

The Company s short-term investments, consisting principally of debt securities, are classified as available-for-sale and are stated at fair value based upon observed market prices (Level 1 in the fair value hierarchy). Unrealized holding gains or losses on these securities are included in other comprehensive income. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. **For investments in mortgage-backed securities, amortization of premiums and accretion of discounts are recognized in interest income using the interest method, adjusted for anticipated prepayments as applicable. Estimates of expected cash flows are updated periodically and changes are recognized in the calculated effective yield prospectively as appropriate.** Such amortization is included in interest income. Realized gains and losses and declines in value judged to be other-than-temporary (of which there have been none to date) on available-for-sale securities are included in interest income. In assessing potential impairment of its short-term investments, the Company evaluates the impact of interest rates, potential prepayments on mortgage-backed securities, changes in credit quality, the length of time and extent to which the market value has been less than cost, and the Company s intent and ability to retain the security in order to allow for an anticipated recovery in fair value. The cost of securities sold is based on the specific-identification method.

3. Inventories

Inventories are stated at the lower of cost (FIFO) or market and net of a valuation allowance for potential excess and/or obsolete material of $8.4 million and $5.3 million at June 30, 2008 and December 31, 2007, respectively. Raw materials consists of bulk drug material for BYETTA and SYMLIN, work-in-process consists of in-process BYETTA cartridges, in-process SYMLIN cartridges and in-process Symlin vials, and finished goods consists of BYETTA drug product in a disposable pen/cartridge delivery system, finished SYMLIN drug product in vials for syringe administration, and finished SYMLIN drug product in a disposable pen/cartridge delivery system.

Inventories consist of the following (in thousands):

	June 30, 2008	December 31, 2007
Raw materials	$ 60,159	$ 55,706
Work-in-process	26,709	24,463

Finished goods	13,298	20,045
	$ 100,166	$ 100,214

4. Debt Issuance Costs

Debt issuance costs relate to the $200 million principal amount of 2.5% convertible senior notes, due April 15, 2011, issued in April 2004, referred to as the 2004 Notes, the $575 million principal amount of 3.0% convertible senior notes, due June 15, 2014, issued in June 2007, referred to as the 2007 Notes, and a $125 million term loan entered into in December 2007, referred to as the Term Loan. Amortization of debt issuance costs are recorded as interest expense in the consolidated statement of operations on a straight-line basis, which approximates the interest method over the contractual term of the related debt. The Company incurred total debt issuance costs of $24.3 million in connection with the 2004 Notes, the 2007 Notes and the Term Loan. Amortization expense of $0.9 million and $0.4 million was recorded in each of the three months ended June 30, 2008 and 2007, respectively. Amortization expense of $1.9 and $0.6 million was recorded in each of the six months ended June 30, 2008 and 2007, respectively.

5. Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	June 30, 2008	December 31, 2007
Contingent share-settled obligation (1)	$	$ 30,000
Accrued contract research and development expenses	11,956	20,107
Accrued rebate discounts	24,773	19,673
Accrued property, plant and equipment additions	13,702	15,559
Other accrued sales allowances	13,130	13,989
Other current liabilities	25,735	23,596
	$ 89,296	$ 122,924

(1) Represents a liability for $30 million in convertible milestone payments received from Lilly that converted into approximately 0.8 million shares of the Company s common stock during the three months ended March 31, 2008.

6. Comprehensive Loss

SFAS No. 130 (SFAS 130), *Reporting Comprehensive Income,* requires reporting and displaying comprehensive income (loss) and its components, which, for the Company, includes net loss and unrealized gains and losses on investments. In accordance with SFAS 130, the accumulated balance of other comprehensive income (loss) is disclosed as a separate component of stockholders equity. For the three and six months ended June 30, 2008 and 2007, the comprehensive loss consisted of (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net loss	$ (64,816)	$ (45,023)	$ (133,613)	$ (94,437)
Other comprehensive loss:				
Unrealized (loss) gain on investments	(493)	390	(3,638)	628
Comprehensive loss	$ (65,309)	$ (44,633)	$ (137,251)	$ (93,809)

7. Convertible Senior Notes

In June 2007, the Company issued the 2007 Notes, which have an aggregate principal amount of $575 million, and are due June 15, 2014, in a private placement. The 2007 Notes are senior unsecured obligations and rank equally with all other existing and future senior unsecured debt. The 2007 Notes bear interest at 3.0% per year, payable in cash semi-annually, and are initially convertible into a total of up to 9.4 million shares of common stock at a conversion price of $61.07 per share, subject to the customary adjustment for stock dividends and other dilutive transactions. In addition, if a fundamental change (as defined in the associated indenture agreement) occurs prior to the maturity date, the Company will in some cases increase the conversion rate for a holder of notes that elects to convert its notes in connection with such fundamental change. The maximum conversion rate is 22.9252, which would result in a maximum issuance of 13.2 million shares of common stock if all holders converted at the maximum conversion rate.

The 2007 Notes will be convertible into shares of the Company s common stock unless the Company elects net-share settlement. If net-share settlement is elected by the Company, the Company will satisfy the accreted value of the obligation in cash and will satisfy the excess of conversion value over the accreted value in shares of the Company s common stock based on a daily conversion value, determined in accordance with the associated indenture agreement, calculated on a proportionate basis for each day of the relevant 20-day observation period. Holders may convert the 2007 Notes only in the following circumstances and to the following extent: (1) during the five business-day period after any five consecutive trading period (the measurement period) in which the trading price per note for each day of such measurement period was less than 97% of the product of the last reported sale price of the Company s common stock and the conversion rate on each such day; (2) during any calendar quarter after the calendar quarter ending March 31, 2007, if the last reported sale price of the Company s common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; (3) upon the occurrence of specified events; and (4) the 2007 Notes will be convertible at any time on or after April 15, 2014 through the scheduled trading day immediately preceding the maturity date.

Subject to certain exceptions, if the Company undergoes a designated event (as defined in the associated indenture agreement) including a fundamental change, holders of the 2007 Notes will, for the duration of the 2007 Notes, have the option to require the Company to repurchase all or any portion of their 2007 Notes. The designated event repurchase price will be 100% of the principal amount of the 2007 Notes to be purchased plus any accrued interest up to but excluding the relevant repurchase date. The Company will pay cash for all 2007 Notes so repurchased. The Company may not redeem the Notes prior to maturity.

The 2007 Notes have been registered under the Securities Act of 1933, as amended, to permit registered resale of the 2007 Notes and of the common stock issuable upon conversion of the 2007 Notes. Subject to certain limitations, the Company will be required to pay the holders of the 2007 Notes special interest on the 2007 Notes if the Company fails to keep such registration statement effective during specified time periods.

In April 2004, the Company issued the 2004 Notes, which have an aggregate principal amount of $200 million, and are due April 15, 2011, in a private placement. The 2004 Notes are senior unsecured obligations and rank equally with all other existing and future senior unsecured debt. The 2004 Notes bear interest at 2.5% per year, payable in cash semi-annually and are convertible into a total of up to 5.8 million shares of common stock at a conversion price of $34.35 per share, subject to customary adjustments for stock dividends and other dilutive transactions. The Company may not redeem the 2004 Notes prior to maturity.

Upon a change in control, the holders of the 2004 Notes may elect to require the Company to repurchase the 2004 Notes. The Company may elect to pay the purchase price in common stock instead of cash, or a combination thereof. If paid with common stock the number of shares of common stock a holder will receive will be valued at 95% of the closing prices of the Company s common stock for the five-day trading period ending on the third day before the purchase date.

The 2004 Notes have been registered under the Securities Act of 1933, as amended, to permit registered resale of the 2004 Notes and of the common stock issuable upon conversion of the 2004 Notes.

8. Long-Term Note Payable

In December 2007, the Company entered into a $140 million credit agreement with Bank of America, N.A., as administrative agent, collateral agent and letter of credit issuer, Silicon Valley Bank and RBS Asset Finance, Inc., as syndication agents, and Comerica Bank and BMO Capital Markets Financing, Inc., as documentation agents. The credit agreement provides for a $125 million term loan and a $15 million revolving credit facility. The proceeds of both loans will be used for general corporate purposes. The revolving credit facility also provides for the issuance of letters of credit and foreign exchange hedging up to the $15 million borrowing limit. The Company had an outstanding balance of $125.0 million under the term loan and had issued $5.6 million and $5.2 million of stand-by letters of credit under the revolving credit facility, respectively, primarily in connection with office leases, at June 30, 2008 and December 31, 2007.

The Company s domestic subsidiaries, Amylin Ohio LLC and Amylin Investments LLC, are co-borrowers under the credit agreement. The loans under the revolving credit facility are secured by substantially all of the Company s and the two domestic subsidiaries assets (other than intellectual property and certain other excluded collateral). The term loan is repayable on a quarterly basis, with no principal payments due quarters one through four, 6.25% of the outstanding principal due quarters five through eleven, and 56.25% of the outstanding principal due in quarter twelve. Interest on the term loan will be paid quarterly on the unpaid principal balance at 1.75% above the London Interbank Offered Rate, or LIBOR, based on the Company s election of either one, two, three or six months LIBOR term, and payable at the end of the selected interest period but no less frequently than quarterly as of the first business day of the quarter prior to the period in which the quarterly installment is due. The Company has elected to use the three month LIBOR rate, which was 2.78% and 4.85% at June 30, 2008 and December 31, 2007, respectively. Interest periods on the revolving credit facility may be either one, two, three or six months, and payable at the end of the selected interest period but no less

frequently than quarterly, and the interest rate will be either LIBOR plus 1.0% or the Bank of America prime rate, as selected by the Company. Both loans have a final maturity date of December 21, 2010.

The credit agreement contains certain covenants, including a requirement to maintain minimum unrestricted cash and cash equivalents, as defined in the agreement, in excess of $400 million, and events of default that permit the administrative agent to accelerate the Company s outstanding obligations if not cured within applicable grace periods, including nonpayment of principal, interest, fees or other amounts, violation of covenants, inaccuracy of representations and warranties, and default under other indebtedness. In addition, the credit agreement provides for automatic acceleration upon the occurrence of bankruptcy and other insolvency events. There is an annual commitment fee associated with the revolving credit facility of 0.25%.

Maturities of long-term note payable for years ending after June 30, 2008 are as follows (in thousands):

2008	$
2009	31,250
2010	93,750
Thereafter	
Total minimum long-term debt payments	$ 125,000

In connection with the execution of the term loan, the Company entered into an interest rate swap with an initial notional amount of $125 million on December 21, 2007. The Company will make payments to a counter-party at 3.967% and receive payments at LIBOR which is reset every three months, the first reset date being March 21, 2008. Payments will be made on the 21st of each March, June, September and December, commencing on March 21, 2008 for the period December 21, 2007 through March 21, 2008, and continuing in similar fashion throughout the maturity of the swap, which maturity is coincident with the term loan maturity. The Company determined that the interest rate swap agreement is defined as Level 2 in the fair value hierarchy. As of June 30, 2008, the fair value of the interest rate swap agreement was a liability of $1.0 million and the recognized loss on the interest rate swap for the six months ended June 30, 2008 was $0.7 million. The interest rate swap has resulted in a fixed rate of 5.717% for net interest receipts and payments for the term loan and interest rate swap transactions.

9. Stockholders Equity

In March 2008, the Company contributed approximately 0.7 million newly issued shares of its common stock, valued at $24.87 per share, to the Company s ESOP for amounts earned by participants during the year ended December 31, 2007.

In February 2008, the Company contributed approximately 0.1 million newly issued shares of its common stock, at $37.00 per share, to the Company s 401(k) plan for amounts earned by participants during the year ended December 31, 2007.

In February 2008, the Company issued approximately 0.8 million shares of its common stock to Lilly, upon Lilly s election to convert $30 million of development milestone payments related to exenatide once weekly, received in 2007 at a conversion price of $37.95, which represents the immediately preceding twenty day average closing market price of the Company s common stock on December 31, 2007 in accordance with the Company s exenatide collaboration agreement with Lilly.

10. Commitments and Contingencies

Other Commitments

The Company has committed to make potential future milestone payments to third parties as part of in-licensing and development programs primarily related to research and development agreements. Potential future payments generally become due and payable only upon the achievement of certain developmental, regulatory and/or commercial milestones, such as achievement of regulatory approval, successful development and commercialization of products, and subsequent product sales. Because the achievement of these milestones is neither probable nor reasonably estimable, the Company has not recorded a liability on the balance sheet for any such contingencies.

As of June 30, 2008, if all such milestones are successfully achieved, the potential future milestone and other contingency payments due under certain contractual agreements are approximately $312.4 million in aggregate, of which $1.8 million are expected to be paid over the next twelve months.

We have committed to make future minimum payments to third parties for certain inventories in the normal course of business. The minimum purchase commitments total approximately $44.0 million as of June 30, 2008.

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Except for the historical information herein, the discussion in this quarterly report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. These statements include projections about our accounting and

finances, plans and objectives for the future, future operating and economic performance and other statements regarding future performance. These statements are not guarantees of future performance or events. Our actual results may differ materially from those discussed here. Factors that could cause or contribute to differences in our actual results include those discussed under the caption Cautionary Factors That May Affect Future Results, as well as those discussed elsewhere in this quarterly report on Form 10-Q or in our other public disclosures. You should consider carefully those cautionary factors, together with all of the other information included in this quarterly report on Form 10-Q. Each of the cautionary factors, either alone or taken together, could adversely affect our business, operating results and financial condition, as well as adversely affect the value of an investment in our common stock. There may be additional risks that we are not presently aware of or that we currently believe are immaterial which could also impair our business and financial position. We disclaim any obligation to update these forward-looking statements.

Overview

Amylin Pharmaceuticals, Inc. is a biopharmaceutical company committed to improving the lives of people with diabetes, obesity and other diseases through the discovery, development and commercialization of innovative medicines. We have developed and gained approval for two first-in-class medicines to treat diabetes, BYETTA® (exenatide) injection and SYMLIN® (pramlintide acetate) injection, both of which were commercially launched in the United States during the second quarter of 2005. BYETTA has also been approved in the European Union, or EU, and our collaboration partner Eli Lilly and Company, or Lilly, has commercially launched BYETTA in more than 30 countries as of June 30, 2008. We expect Lilly to continue to launch BYETTA in additional EU member states and other countries during 2008.

BYETTA is the first and only approved medicine in a new class of compounds called incretin mimetics. We began selling BYETTA in the United States in June 2005. BYETTA is approved in the United States for the treatment of patients with type 2 diabetes who have not achieved adequate glycemic control and are using metformin, sulfonylurea and/or a thiazolidinedone, or TZD, three common oral therapies for type 2 diabetes. Net product sales of BYETTA were $177.5 million and $152.1 million for the three months ended June 30, 2008 and 2007, respectively, and $336.0 million and $298.6 million for the six months ended June 30, 2008 and 2007, respectively.

We have an agreement with Lilly for the global development and commercialization of exenatide. This agreement includes BYETTA and any sustained-release formulations of exenatide such as exenatide once weekly, our once weekly formulation of exenatide for the treatment of type 2 diabetes. Under the terms of the agreement, operating profits from products sold in the United States are shared equally between Lilly and us. The agreement provides for tiered royalties payable to us by Lilly based upon the annual gross margin for all exenatide product sales, including any long-acting release formulations, outside of the United States. Royalty payments for exenatide product sales outside of the United States will commence after a one-time cumulative gross margin threshold amount has been met. We expect royalty payments to commence in 2009. Lilly is responsible for 100% of the costs related to development of twice-daily BYETTA for sale outside of the United States. Development costs related to all other exenatide products for sale outside of the United States will continue to be allocated 80% to Lilly and 20% to us. Lilly will continue to be responsible for commercialization and all of the costs related to commercialization of all exenatide products for sale outside of the United States.

SYMLIN is the first and only approved medicine in a new class of compounds called amylinomimetics. We began selling SYMLIN in the United States in April 2005. SYMLIN is approved in the United States for the treatment of patients with either type 1 or type 2 diabetes who are treated with mealtime insulin but who have not achieved adequate glycemic control. In January 2008, we commercially launched the SymlinPen™ 120 and SymlinPen™ 60 pen injector devices in the United States. These new pre-filled pen-injector devices feature simple, fixed dosing to improve mealtime glucose control. Net product sales of SYMLIN were $22.8 million and $15.2 million for the three months ended June 30, 2008 and 2007, respectively, and $43.1 million and $30.7 million for the six months ended June 30, 2008 and 2007, respectively.

We have a field force of approximately 650 people, after our recent expansion discussed below, dedicated to marketing BYETTA and SYMLIN in the United States. Our field force includes our specialty and primary care sales forces, a managed care and government

affairs organization, a medical science organization and diabetes care specialists. In addition, Lilly co-promotes BYETTA in the United States. In May 2008, we amended our United States co-promotion agreement with Lilly, resulting in a 40% increase in the total number of sales representatives promoting BYETTA beginning July 1, 2008. To achieve this increase, Lilly s existing third party sales force for Cialis® (tidalafil) will co-promote BYETTA in the United States and Amylin increased the number of sales representatives in its existing primary care sales force by approximately 15%. In exchange for Lilly sharing in 50% of the costs related to the additional Amylin sales representatives and paying 100% of the costs of the third party sales force discussed above, our primary care sales force will co-promote Cialis in the United States.

In addition to our marketed products, we are working with Lilly and Alkermes, Inc., or Alkermes, to develop exenatide once weekly. We are also working with Alkermes and Parsons, Inc., or Parsons, on the construction of a manufacturing facility for exenatide once weekly in Ohio. We are now manufacturing exenatide once weekly at commercial scale in our facility in Ohio and we plan to begin supplying ongoing and planned clinical trials with this material in the third quarter of 2008. During the second quarter of 2008, we held our pre-NDA meeting with the United States Food and Drug Administration, or FDA, to discuss open items for our exenatide once weekly regulatory submission. We remain on track to submit our NDA for exenatide once weekly to the FDA by the end of the first half of 2009 and we are working aggressively to provide sufficient data to the FDA to demonstrate comparability between exenatide once weekly clinical trial material manufactured by our partner, Alkermes, in its facility and exenatide once weekly produced in our Ohio facility that could allow for an acceleration of the NDA submission.

We also have other early stage programs for diabetes, obesity, and other therapeutic areas. We have a number of compounds in development for the potential treatment of obesity, which are part of a broader clinical strategy which we refer to as INTO: Integrated Neurohormonal Therapies for Obesity. In March 2008, we licensed rights to sustained release technology from Pacira Pharmaceuticals, Inc. for the potential development of sustained release formulations of our early stage obesity and other potential product candidates.

We also maintain an active discovery research program focused on novel peptide therapeutics. We are actively seeking to in-license additional drug candidates and we have made a number of strategic investments and collaborations for the potential development of additional drug candidates.

Since our inception in September 1987, we have devoted substantially all of our resources to our research and development programs and, more recently, to the commercialization of our products. All of our revenues prior to May 2005 were derived from fees and expense reimbursements under our BYETTA collaboration agreement with Lilly, previous SYMLIN collaborative agreements and previous co-promotion agreements. During the second quarter of 2005, we began to derive revenues from product sales of BYETTA and SYMLIN. At June 30, 2008, our accumulated deficit was approximately $1.6 billion.

At June 30, 2008, we had approximately $890.9 million in cash, cash equivalents and short-term investments. We may not generate positive operating cash flows for at least the next few years and accordingly, we may need to raise additional funds from outside sources. Refer to the discussions under the headings Liquidity and Capital Resources below and Cautionary Factors That May Affect Future Results in Part II, Item 1A for further discussion regarding our anticipated future capital requirements.

Application of Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. On an on-going basis, our actual results may differ significantly from our estimates.

There were no significant changes in critical accounting policies from those at December 31, 2007. The financial information as of June 30, 2008, should be read in conjunction with the financial statements for the year ended December 31, 2007, contained in our annual report on Form 10-K filed on February 27, 2008.

For a discussion of the Company s critical accounting policies, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our annual report on Form 10-K filed on February 27, 2008.

Results of Operations

Comparison of Three Months Ended June 30, 2008 to Three Months Ended June 30, 2007

Net Product Sales

Net product sales for the three months ended June 30, 2008 and 2007 were $200.3 million and $167.3 million, respectively, and consisted of shipments of BYETTA and SYMLIN, less allowances for product returns, rebates and wholesaler chargebacks, wholesaler discounts and prescription vouchers.

The following table provides information regarding net product sales (in millions):

	Three months ended June 30,	
	2008	2007
BYETTA	$ 177.5	$ 152.1
SYMLIN	22.8	15.2
	$ 200.3	$ 167.3

The increases in net product sales for BYETTA and SYMLIN in the current period reflect continued growth in patient demand.

Revenues Under Collaborative Agreements

Revenues under collaborative agreements for the three months ended June 30, 2008, were $21.7 million compared to $29.6 million for the same period in 2007. Substantially all of the revenue recorded in these periods consists of amounts earned pursuant to our BYETTA collaboration agreement with Lilly. The $7.9 million decrease in revenues under collaborative agreements in the current quarter compared to the same period in 2007 reflects a reduction in milestone revenues partially offset by higher cost-sharing payments from Lilly due primarily to increased development expenses for exenatide once weekly and a higher proportion of total shared development expenses incurred by us. Milestone revenues for the three months ended June 30, 2007 consisted of $15.0 million in milestones associated primarily with Lilly s launch of BYETTA in the EU. There were no milestones earned in the three months ended June 30, 2008.

The following table summarizes the components of revenues under collaborative agreements for the three months ended June 30, 2008 and 2007 (in millions):

	Three months ended June 30,	
	2008	2007
Amortization of up-front payments	$ 1.1	$ 1.1
Milestones		15.0
Cost-sharing and co-promotion payments	20.6	13.5
	$ 21.7	$ 29.6

In future periods, revenues under collaborative agreements will consist of ongoing cost-sharing payments from Lilly for sharing of development costs, possible future milestone payments and the continued amortization of the $30 million portion of the up-front payment received from Lilly upon signing of our collaboration agreement in 2002. The amount of cost-sharing revenue recorded will be dependent on the timing, extent and relative proportion of total development costs for the exenatide once weekly and BYETTA development programs incurred by us and by Lilly. The receipt and recognition as revenue of future milestone payments is subject to the achievement of performance requirements underlying such milestone payments.

Cost of Goods Sold

Cost of goods sold for the three months ended June 30, 2008 and 2007 was $24.7 million, representing a gross margin of 88%, and $14.4 million, representing a gross margin of 91%, respectively, and is comprised primarily of manufacturing costs associated with BYETTA and SYMLIN sales during the period. The decrease in gross margin for the three months ended June 30, 2008, compared to

the same period in 2007, primarily reflects increased product costs for BYETTA due to lower production volumes, and product mix, including the introduction of the Symlin Pen, partially offset by higher net sales prices per unit for BYETTA and SYMLIN. Quarterly fluctuations in gross margins may be influenced by product mix, pricing and the level of sales allowances.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $111.1 million for the three months ended June 30, 2008, from $93.1 million for the same period in 2007. The increase primarily reflects expenses associated with the recent expansion of our sales force, increased promotional expenses for BYETTA and SYMLIN, expenses associated with pre-launch education activities for exenatide once weekly and increases in business infrastructure to support our growth.

Research and Development Expenses

Our research and development costs are comprised of salaries and bonuses, benefits, non-cash stock-based compensation, license fees, milestones under license agreements, costs paid to third-party contractors to perform research, conduct clinical trials, and develop drug materials and delivery devices; and associated overhead expenses and facilities costs. We charge direct internal and external program costs to the respective development programs. We also incur indirect costs that are not allocated to specific programs because such costs benefit multiple development programs and allow us to increase our pharmaceutical development capabilities. These consist primarily of facilities costs and other internal shared resources related to the development and maintenance of systems and processes applicable to all of our programs.

Our research and development efforts are focused on diabetes, obesity, and other diseases. We also maintain an active discovery research program. In diabetes, we have two approved products, BYETTA and SYMLIN, and we are developing exenatide once weekly, a long-acting release formulation of exenatide, the active pharmaceutical ingredient in BYETTA. In obesity, we have a number of compounds in development for the potential treatment of obesity which are part of a broader program, which we refer to as INTO: Integrated Neurohormonal Therapies for Obesity. As part of this program, we are currently conducting several clinical trials of our drug candidates, or combinations of our drug candidates.

The following table provides information regarding our research and development expenses for our major projects (in millions):

	Three months ended June 30,		
	2008	**2007**	**Increase/(Decrease)**
Diabetes (1)	$ 41.2	$ 35.5	$ 5.7
Obesity	12.3	19.7	(7.4)
Research and early-stage programs	9.1	7.1	2.0
Indirect costs	12.8	9.4	3.4
	$ 75.4	$ 71.7	$ 3.7

(1) Research and development expenses consist primarily of costs associated with BYETTA and exenatide once weekly which are shared by Lilly pursuant to our collaboration agreement. Cost-sharing payments received by Lilly are included in revenues under collaborative agreements. Increased expenditures for our diabetes development programs are generally partially offset by an increase in cost-sharing payments from Lilly. Cost-sharing payments were $20.6 million and $13.5 million for the three months ended June 30, 2008 and 2007, respectively.

The $3.7 million increase in research and development expenses for the three months ended June 30, 2008 as compared to the same period in 2007 primarily reflects increased expenses of $5.7 million for our diabetes programs, increased expenses of $3.4 million for indirect costs and increased expenses of $2.0 million for our research and early-stage programs, partially offset by a $7.4 million reduction in our obesity programs. The increase in expenses for our diabetes programs primarily reflects increased expenses for exenatide once weekly associated with manufacturing scale-up and on-going clinical trials. The increase in indirect costs primarily reflects increased facilities costs, a portion of which are allocated to research and development expenses. The increase in expenses for our research and early-stage programs primarily reflects investments in drug delivery platforms. The decrease in expenses for our obesity programs primarily reflects the fact that expenses for our obesity programs for the three months ended June 30, 2007 included a development milestone for Leptin. There was no comparable expense in the three months ended June 30, 2008.

Collaborative Profit Sharing

Collaborative profit sharing was $79.0 million and $70.4 million for the three months ended June 30, 2008 and 2007, respectively, and consists of Lilly s 50% share of the gross margin for BYETTA in the United States.

Interest and Other Income and Expense

Interest and other income consist primarily of interest income from investment of cash and other investments. Interest and other income decreased to $7.0 million for the three months ended June 30, 2008, from $9.9 million for the same period in 2007. The decrease primarily reflects lower interest rates earned on our short-term investments partially offset by higher average short-term investment balances during the three months ended June 30, 2008 as compared to the same period in 2007.

Interest and other expense consist primarily of interest expense resulting from our long-term debt obligations. Interest expense in the three months ended June 30, 2008 consists of interest on our $775 million of outstanding convertible senior notes and our $125 million of outstanding long-term note payable, the amortization of associated debt issuance costs and recognized gains and losses associated with recording economic hedge transactions at fair value. Interest and other expense was $3.7 million and $2.4 million for the three months ended June 30, 2008 and 2007, respectively. The increase in interest and other expense for the three months ended June 30, 2008 reflects additional interest expense for our convertible senior notes issued in June 2007 and long-term note payable entered into in December 2007, partially offset by a recognized gain of approximately $3 million associated with the interest rate swap related to the term loan. There was no comparable gain in the three months ended June 30, 2007.

Net Loss

Our net loss for the three months ended June 30, 2008 was $64.8 million compared to a net loss of $45.0 million for the same period in 2007. The increase in net loss primarily reflects the increased selling, general and administrative expenses, increased collaborative profit-sharing, the decreased revenues under collaborative arrangements and the increased research and development expenses discussed above, partially offset by increased net product sales discussed above. We may incur operating losses for the next few years. Our ability to reach profitability in the future will be heavily dependent upon the amount of product sales that we achieve for BYETTA and SYMLIN. In addition, ongoing and potential increased expenses associated with the continued commercialization of BYETTA and SYMLIN, costs associated with the development and commercialization of exenatide once weekly, if approved, and expenses associated with potential expansion of our research and development programs, including our obesity and our early-stage development programs, and related support infrastructure, may impact our ability to reach profitability in the future. Our operating results may fluctuate from quarter to quarter as a result of differences in the timing of expenses incurred and revenues recognized.

Comparison of Six Months Ended June 30, 2008 to Six Months Ended June 30, 2007

Net Product Sales

Net product sales for the six months ended June 30, 2008 and 2007 were $379.1 million and $329.3 million, respectively, and consisted of shipments of BYETTA and SYMLIN, less allowances for product returns, rebates and wholesaler chargebacks, wholesaler discounts, and prescription vouchers.

The following table provides information regarding net product sales (in millions):

	Six months ended June 30,	
	2008	2007
BYETTA	$ 336.0	$ 298.6
SYMLIN	43.1	30.7
	$ 379.1	$ 329.3

The increases in net product sales for BYETTA and SYMLIN in the current period reflect continued growth in patient demand.

Revenues Under Collaborative Agreements

Revenues under collaborative agreements for the six months ended June 30, 2008 were $40.2 million compared to $39.6 million for the same period in 2007. Substantially all of the revenue recorded in these periods consists of amounts earned pursuant to our BYETTA collaboration agreement with Lilly. The $0.6 million increase in revenues under collaborative agreements in the six months ended June 30, 2008 compared to the same period in 2007 reflects higher cost-sharing payments from Lilly due primarily to increased development expenses for exenatide once weekly and a higher proportion of total shared development expenses incurred by us, partially off-set by a reduction in milestone revenues. Milestone revenues for the six months ended June 30, 2007 consisted of $15.0 million in milestones associated primarily with Lilly s launch of BYETTA in the EU. There were no milestones earned in the six months ended June 30, 2008.

The following table summarizes the components of revenues under collaborative agreements for the six months ended June 30, 2008 and 2007 (in millions):

	Six months ended June 30,	
	2008	2007
Amortization of up-front payments	$ 2.1	$ 2.1
Milestones		15.0
Cost-sharing and co-promotion payments	38.1	22.5
	$ 40.2	$ 39.6

Cost of Goods Sold

Cost of goods sold for the six months ended June 30, 2008 and 2007 was $46.7 million, representing a gross margin of 88%, and $29.6 million, representing a gross margin of 91%, respectively, and is comprised primarily of manufacturing costs associated with BYETTA and SYMLIN sales during the period. The decrease in gross margin for the six months ended June 30, 2008 compared to the same period in 2007 reflects the same factors that influenced similar fluctuations in the three months ended June 30, 2008 discussed above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $209.3 million for the six months ended June 30, 2008, from $180.9 million for the same period in 2007. The increase primarily reflects the same factors that influenced similar fluctuations in the three months ended June 30, 2008 discussed above.

Research and Development Expenses

The following table provides information regarding our research and development expenses for our major projects (in millions):

	Six months ended June 31,		
	2008	2007	Increase/(Decrease)
Diabetes (1)	$ 81.7	$ 63.8	$ 17.9
Obesity	29.3	34.9	(5.6)
Research and early-stage programs	16.5	13.8	2.7
Indirect costs	25.1	18.8	6.3
	$ 152.6	$ 131.3	$ 21.3

(1) Research and development expenses consist primarily of costs associated with BYETTA and exenatide once weekly which are shared by Lilly pursuant to our collaboration agreement. Cost-sharing payments received by Lilly are included in revenues under collaborative agreements. Increased expenditures for our diabetes development programs are generally partially offset by an increase in cost-sharing payments from Lilly. Cost-sharing payments were $38.1 million and $22.5 million for the six months ended June 30, 2008 and 2007, respectively.

The $21.3 million increase in research and development expenses for the six months ended June 30, 2008 as compared to the same period in 2007 primarily reflects increases of $17.9 million for our diabetes programs, $6.3 million for indirect costs, and $2.7 million for our research and early-stage programs, partially offset by a reduction of $5.6 million for our obesity programs. The increase in expenses for our diabetes programs primarily reflects increased expenses for exenatide once weekly associated with manufacturing scale-up and on-going clinical trials. The increase in indirect costs primarily reflects increased facilities costs, a portion of which are allocated to research and development expenses. The increase in expenses for our research and early stage programs primarily reflects investments in drug delivery platforms. The increase in indirect costs primarily reflects increased facilities costs to support our growth, a portion of which is allocated to research and development expenses. The reduction in expenses for our obesity programs primarily reflects reduced clinical trial costs following the completion of several clinical trials in 2007 conducted as part of our INTO strategy.

Collaborative Profit Sharing

Collaborative profit sharing was $148.9 million and $137.3 million for the six months ended June 30, 2008 and 2007, respectively, and consists of Lilly s 50% share of the gross margin for BYETTA in the United States.

Interest and Other Income and Expense

Interest and other income consist primarily of interest income from investment of cash and other investments. Interest and other income decreased to $18.0 million for the six months ended June 30, 2008, from $19.3 million for the same period in 2007. The decrease of $1.3 million primarily reflects lower interest rates, partially offset by higher average investment balances during the six months ended June 30, 2008 as compared to the same period in 2007.

Interest and other expense consist primarily of interest expense resulting from our long-term debt obligations. Interest expense in the six months ended June 30, 2008 consists of interest on our $775 million of outstanding convertible senior notes and our $125 million of outstanding long-term note payable, or our term loan, and the amortization of associated debt issuance costs. Interest and other expense was $13.4 million and $3.7 million for the six months ended June 30, 2008 and 2007, respectively. The increase reflects additional interest expense for our convertible senior notes issued in June 2007 and long-term note payable entered into in December 2007.

Net Loss

Our net loss for the six months ended June 30, 2008 was $133.6 million compared to a net loss of $94.4 million for the same period in 2007. The increase in net loss primarily reflects the increased selling, general and administrative expenses, increased research and development expenses, increased collaborative profit-sharing and increased interest and other expense, partially offset by the increased net product sales and revenues under collaborative agreements discussed above.

Liquidity and Capital Resources

Since our inception, we have financed our operations primarily through public sales and private placements of our common and preferred stock, debt financings, payments received pursuant to our BYETTA collaboration with Lilly, reimbursement of SYMLIN development expenses through earlier collaboration agreements, and since the second quarter of 2005, through product sales of BYETTA and SYMLIN.

At June 30, 2008, we had $890.9 million in cash, cash equivalents and short-term investments, compared to $1.1 billion at December 31, 2007. We used cash of $72.7 million and $54.2 million for our operating activities in the six months ended June 30, 2008 and 2007, respectively. Our cash used for operating activities in the six months ended June 30, 2008 included a net source of cash of $14.2 million from changes in working capital, due primarily to sources of cash from a decrease in accounts receivable and an increase in accrued compensation of $7.9 million and $13.2 million, respectively, offset by uses of cash from a decrease in payable to collaborative partner and an increase in other current assets of $4.7 million and $2.6 million, respectively.

Our investing activities used cash of $228.2 million and $215.2 million for the six months ended June 30, 2008 and 2007, respectively. Investing activities in both quarters consisted primarily of purchases and sales of short-term investments and purchases of property, plant and equipment and increases in other long-term assets. Purchases of property, plant and equipment increased to $173.4 million for the six months ended June 30, 2008 from $142.0 million for the six months ended June 30, 2007. The increase during the six months ended June 30, 2008 primarily reflects costs associated with our manufacturing facility for exenatide once weekly and, to a lesser extent, purchases of tenant improvements, office equipment and scientific equipment to support our growth. We are now manufacturing exenatide once weekly at commercial scale in our facility in Ohio and we plan to begin supplying ongoing and planned clinical trials with this material during the third quarter of 2008. Through June 30, 2008, we had expended in excess of $400 million associated with the construction of this facility and we expect the total investment to be in excess of $500 million by the end of 2008, which includes costs associated with the construction of the facility, purchase and installation of equipment and capitalized labor and materials required to validate the facility. We will continue to evaluate potential additional investments in Ohio during the product lifecycle for exenatide once weekly.

Financing activities provided cash of $9.5 million and $582.2 million for the six months ended June 30, 2008 and 2007, respectively. Financing activities in six months ended June 30, 2008 include proceeds from the exercise of stock options and proceeds from our employee stock purchase plan.

At March 31, 2008, we had $200 million in aggregate principal amount of our 2.5% convertible senior notes due in 2011, or the 2004 Notes, and $575 million in aggregate principal amount of our 3.0% convertible senior notes due in 2014, or the 2007 Notes, outstanding. The 2004 Notes are currently convertible into a total of up to 5.8 million shares of our common stock at approximately $34.35 per share and are not redeemable at our option. The 2007 Notes are currently convertible into a total of up to 9.4 million shares of our common stock at approximately $61.07 per share and are not redeemable at our option.

In December 2007, we entered into a $140 million credit agreement. The credit agreement provides for a $125 million term loan and a $15 million revolving credit facility. The revolving credit facility also provides for the issuance of letters of credit and foreign exchange hedging up to the $15 million borrowing limit. The term loan is repayable on a quarterly basis, with no principal payments due quarters one through four, 6.25% of the outstanding principal due quarters five through eleven, and 56.25% of the outstanding principal due in quarter twelve. At June 30, 2008 we had an outstanding balance of $125.0 million under the term loan and had issued $5.6 million of stand-by letters of credit under the revolving credit facility. Both loans have a final maturity date of December 21, 2010. Interest on the term loan is payable quarterly in arrears at a rate equal to 1.75% above the London Interbank Offered Rate, or LIBOR, of either one, two, three or six months LIBOR term at our election. We have entered into an interest rate swap agreement which resulted in a net fixed interest rate of 5.717% under the term loan. The interest rate on the credit facility is either LIBOR plus 1.0% or the Bank of America prime rate, at our election.

The following table summarizes our contractual obligations and maturity dates as of June 30, 2008 (in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-term convertible debt	$ 775,000	$	$ 200,000	$	$ 575,000
Interest payments on long-term convertible debt	118,500	22,250	44,500	34,500	17,250
Long-term note payable	125,000	15,625	109,375		
Interest on long-term note payable, net of swap transactions (1)	14,740	7,035	7,705		
Inventory purchase obligations(2)	130,417	86,879	39,908	3,630	
Operating lease obligations	166,301	18,571	36,184	38,408	73,138
Total(3)	$ 1,329,958	$ 150,360	$ 437,672	$ 76,538	$ 665,388

(1) The interest payments shown were calculated using a rate of 5.717%, the combined net rate of the term loan and interest rate swap, on the outstanding principal balance of the term loan

(2) Includes $86.5 million of outstanding purchase orders, cancelable by us upon 30 days written notice, subject to reimbursement of costs incurred through the date of cancellation.

(3) Excludes long-term obligation of $8.4 million related to deferred compensation, the payment of which is subject to elections made by participants that are subject to change.

In addition, under certain license and collaboration agreements we are required to pay royalties and/or milestone payments upon the successful development and commercialization of related products. We expect to make development milestone payments up to $1.8 million associated with licensing agreements in the next 12 months. Additional milestones of up to approximately $310.7 million could be paid over the next 10 to 15 years if development and commercialization of all our early stage programs continue and are successful. The significant majority of these milestones relate to potential future regulatory approvals and subsequent sales thresholds. Given the inherent risk in pharmaceutical development, it is highly unlikely that we will ultimately make all of these

milestone payments; however, we would consider these payments as positive because they would signify that the related products are moving successfully through development and commercialization.

Our future capital requirements will depend on many factors, including: the amount of product sales we achieve for BYETTA and SYMLIN; costs associated with the continued commercialization of BYETTA and SYMLIN; costs associated with the establishment of our exenatide once weekly manufacturing facility; costs of potential licenses or acquisitions; the potential need to repay existing indebtedness; costs associated with an increase in our infrastructure; our ability to receive or need to make milestone payments; our ability, and the extent, to which we establish collaborative arrangements for SYMLIN or any of our product candidates; progress in our research and development programs and the magnitude of these programs;

costs involved in preparing, filing, prosecuting, maintaining, enforcing or defending our patents; competing technological and market developments; and costs of manufacturing, including costs associated with establishing our own manufacturing capabilities or obtaining and validating additional manufacturers of our products; and scale-up costs for our drug candidates.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We invest our excess cash primarily in United States Government securities, asset-backed securities and debt instruments of financial institutions and corporations with strong credit ratings. These instruments have various short-term maturities. We do not utilize derivative financial instruments, derivative commodity instruments or other market risk sensitive instruments, positions or transactions in any material fashion. Accordingly, we believe that, while the instruments held are subject to changes in the financial standing of the issuer of such securities, we are not subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affect market risk sensitive investments. Our debt is not subject to significant swings in valuation as interest rates on our debt are fixed. The fair value of our 2004 Notes and 2007 Notes at June 30, 2008 was approximately $206 million and $470 million, respectively. A hypothetical 1% adverse move in interest rates along the entire interest rate yield curve would not materially affect the fair value of our financial instruments that are exposed to changes in interest rates.

ITEM 4. Controls and Procedures

As of June 30, 2008, an evaluation was performed under the supervision and with the participation of our management, including our President and Chief Executive Officer (referred to as our CEO) and our Senior Vice President, Finance and Chief Financial Officer (referred to as our CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective at a reasonable level of assurance as of June 30, 2008.

Our management does not expect that our disclosure control and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, or misstatements due to error, if any, within the company have been detected. While we believe that our disclosure controls and procedures and internal control over financial reporting are and have been effective, in light of the foregoing we intend to continue to examine and refine our disclosure controls and procedures and internal control over financial reporting.

An evaluation was also performed under the supervision and with the participation of our management, including our CEO and CFO, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any change in our internal control over financial reporting that occurred during our latest fiscal quarter and that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

The following sets forth cautionary factors that may affect our future results, including clarifications to the cautionary factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

We have a history of operating losses, anticipate future losses and may never become profitable.

We have experienced significant operating losses since our inception in 1987, including losses of $133.6 million for the six months ended June 30, 2008, $211.1 million in 2007, $218.9 million in 2006 and $206.8 million in 2005. As of June 30, 2008, we had an accumulated deficit of approximately $1.6 billion. The extent of our future losses and the timing of potential profitability are uncertain, and we may never achieve profitable operations. We have been engaged in discovering and developing drugs since inception, which has required, and will continue to require, significant research and development expenditures. We derived substantially all of our revenues prior to 2005 from development funding, fees and milestone payments under collaborative agreements and from interest income. BYETTA and SYMLIN may not be as commercially

successful as we expect and we may not succeed in commercializing any of our other drug candidates. We may incur substantial operating losses for at least the next few years as we continue to expand our commercial function for BYETTA and SYMLIN and our research and development activities for the other drug candidates in our development pipeline. These losses, among other things, have had and will have an adverse effect on our stockholders equity and working capital. Even if we become profitable, we may not remain profitable.

We began selling, marketing and distributing our first products, BYETTA and SYMLIN, in 2005 and we will depend heavily on the success of those products in the marketplace.

Prior to the launch of BYETTA and SYMLIN in 2005, we had never sold or marketed our own products. Our ability to generate product revenue for the next few years will depend solely on the success of these products. The ability of BYETTA and SYMLIN to generate revenue at the levels we expect will depend on many factors, including the following:

- acceptance of and ongoing satisfaction with these first-in-class medicines in the United States and foreign markets by the medical community, patients receiving therapy and third party payors;
- a satisfactory efficacy and safety profile as demonstrated in a broad patient population;
- successfully expanding and sustaining manufacturing capacity to meet demand;
- safety concerns in the marketplace for diabetes therapies;
- the competitive landscape for approved and developing therapies that will compete with the products; and
- our ability to expand the indications for which we can market the products.

If we encounter safety issues with BYETTA or SYMLIN or any other drugs we market or fail to comply with extensive continuing regulations enforced by domestic and foreign regulatory authorities, it could cause us to discontinue marketing those drugs, reduce our revenues and harm our ability to generate future revenues, which would negatively impact our financial position.

BYETTA and SYMLIN, in addition to any other of our drug candidates that may be approved by the FDA, will be subject to continual review by the FDA, and we cannot assure you that newly discovered or developed safety issues will not arise. With the use of any of our marketed drugs by a wide patient population, serious adverse events may occur from time to time that initially do not appear to relate to the drug itself, and only if the specific event occurs with some regularity over a period of time does the drug become suspect as having a causal relationship to the adverse event. Any safety issues could cause us to suspend or cease marketing of our approved products, subject us to substantial liabilities, and adversely affect our revenues and financial condition.

Moreover, the marketing of our approved products will be subject to extensive regulatory requirements administered by the FDA and other regulatory bodies, including adverse event reporting requirements and the FDA s general prohibition against promoting products for unapproved uses. The manufacturing facilities for our approved products are also subject to continual review and periodic inspection and approval of manufacturing modifications. Manufacturing facilities that manufacture drug products for the United States market, whether they are located inside or outside the United States, are subject to biennial inspections by the FDA and must comply with the FDA s current good manufacturing practice, or cGMP, regulations. The FDA stringently applies regulatory standards for manufacturing. Failure to comply with any of these post-approval requirements can, among other things, result in warning letters, product seizures, recalls, fines, injunctions, suspensions or revocations of marketing licenses, operating restrictions and criminal prosecutions. Any of these enforcement actions, any unanticipated changes in existing regulatory requirements or the adoption of new requirements, or any safety issues that arise with any approved products, could adversely affect our ability to market products and generate revenues and thus adversely affect our ability to continue our business.

The manufacturers of our products and drug candidates also are subject to numerous federal, state, local and foreign laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and hazardous substance disposal. In the future, our manufacturers may incur significant costs to comply with those laws and regulations, which could increase our manufacturing costs and reduce our ability to operate profitably.

We currently do not manufacture our own drug products or drug candidates and may not be able to obtain adequate supplies, which could cause delays, subject us to product shortages, or reduce product sales.

The manufacturing of sufficient quantities of newly-approved drug products and drug candidates is a time-consuming and complex process. We currently have no manufacturing capabilities. In order to successfully commercialize our products, including BYETTA and SYMLIN, and continue to develop our drug candidates, including exenatide once weekly, we rely on various third parties to provide the necessary manufacturing.

There are a limited number of manufacturers that operate under the FDA s cGMP regulations capable of manufacturing for us. In addition, there are a limited number of bulk drug substance suppliers, cartridge manufacturers and disposable pen manufacturers. If we are not able to arrange for and maintain third-party manufacturing on commercially reasonable terms, or we lose one of our sole source suppliers used for our existing products or for some components of our manufacturing processes for our products or drug candidates, we may not be able to market our products or complete development of our drug candidates on a timely basis, if at all.

Reliance on third-party suppliers limits our ability to control certain aspects of the manufacturing process and therefore exposes us to a variety of significant risks, including, but not limited to, risks to our ability to commercialize our products or conduct clinical trials, risks of reliance on the third-party for regulatory compliance and quality assurance, third-party refusal to supply on a long-term basis, or at all, the possibility of breach of the manufacturing agreement by the third-party and the possibility of termination or non-renewal of the agreement by the third-party, based on its business priorities, at a time that is costly or inconvenient for us. If any of these risks occur, our product supply will be interrupted resulting in lost or delayed revenues and delayed clinical trials. Our reliance on third-party manufacturers for the production of our two commercial products is described in more detail below.

We rely on Bachem California, or Bachem, and Mallinckrodt, Inc., or Mallinckrodt, to manufacture our long-term commercial supply of bulk exenatide, the active ingredient in BYETTA. In addition, we rely on single-source manufacturers for some of our raw materials used by Bachem and Mallinckrodt to produce bulk exenatide. We also rely on Wockhardt UK (Holdings) Ltd., or Wockhardt, and Baxter Pharmaceutical Solutions LLC, a subsidiary of Baxter, Inc., or Baxter, to manufacture the dosage form of BYETTA in cartridges. We are further dependent upon Lilly to supply pens for delivery of BYETTA in cartridges.

We rely on Bachem and Lonza Ltd. to manufacture our commercial supply of bulk pramlintide acetate, the active ingredient contained in SYMLIN. In addition, we rely on Baxter to manufacture the dosage form of SYMLIN in vials. We recently received FDA approval of a disposable pen for the delivery of SYMLIN in cartridges. We rely on Wockhardt for the dosage form of SYMLIN in cartridges and Ypsomed AG to manufacture the components for the SYMLIN disposable pen. We also rely on Hollister-Stier Laboratories LLC for the assembly of the SYMLIN pen.

If any of our existing or future manufacturers cease to manufacture or are otherwise unable to timely deliver sufficient quantities of BYETTA or SYMLIN, in either bulk or dosage form, or other product components, including pens for the delivery of these products, it could disrupt our ability to market our products, subject us to product shortages, reduce product sales and/or reduce our profit margins. Any delay or disruption in the manufacturing of bulk product, the dosage form of our products or other product components, including pens for delivery of our products, could also harm our reputation in the medical and patient communities. In addition, we may need to engage additional manufacturers so that we will be able to continue our commercialization and development efforts for these products or drug candidates. The cost and time to establish these new manufacturing facilities would be substantial.

Our manufacturers have not produced BYETTA or SYMLIN for commercial use for a sustained period of time. As such, additional unforeseeable risks may be encountered as we, together with our manufacturers, continue to develop familiarity and experience with regard to manufacturing our products. Furthermore, we and the other manufacturers used for our drug candidates may not be able to produce supplies in commercial quantities if our drug candidates are approved. While we believe that business relations between us

and our manufacturers are generally good, we cannot predict whether any of the manufacturers that we may use will meet our requirements for quality, quantity or timeliness for the manufacture of bulk exenatide or pramlintide acetate, dosage form of BYETTA or SYMLIN, or pens. Therefore, we may not be able to obtain necessary supplies of products with acceptable quality, on acceptable terms or in sufficient quantities, if at all. Our dependence on third parties for the manufacture of products may also reduce our gross profit margins and our ability to develop and deliver products in a timely manner.

In order to manufacture exenatide once weekly on a commercial scale, if it is approved by the FDA, we must design, construct, and commission a new facility and validate the manufacturing process. We are dependent on Alkermes and Parsons to assist us in the design, construction and commissioning of the manufacturing facility. We have never established, validated, and operated a manufacturing facility and cannot assure you that we will be able to successfully establish or operate such a facility in a timely or economical manner, or at all. In addition, we are dependent on Alkermes to successfully develop and transfer to us its technology for manufacturing exenatide once weekly and to supply us with commercial quantities of the polymer required to manufacture exenatide once weekly. We also will need to obtain sufficient supplies of diluents, solvents, devices, packaging and other components necessary for commercial manufacture of exenatide once weekly. Although we are working diligently to qualify the commercial-scale manufacturing process at this facility, we cannot be assured that we will be able to demonstrate comparability of product manufactured at development scale and product manufactured at commercial scale. If we are unable to demonstrate comparability of product, we may not be able to commercially launch exenatide once weekly in a timely manner or at all.

Our ability to generate revenues will be diminished if we fail to obtain acceptable prices or an adequate level of reimbursement for our products from third-party payors.

The continuing efforts of government, private health insurers and other third-party payors to contain or reduce the costs of health care through various means, including efforts to increase the amount of patient co-pay obligations, may limit our commercial opportunity. In the United States, we expect that there will continue to be a number of federal and state proposals to implement government control over the pricing of prescription pharmaceuticals. In addition, increasing emphasis on managed care in the United States will continue to put pressure on the rate of adoption and pricing of pharmaceutical products.

Significant uncertainty exists as to the reimbursement status of health care products. Third-party payors, including Medicare, are challenging the prices charged for medical products and services. Government and other third-party payors increasingly are attempting to contain health care costs by limiting both coverage and the level of reimbursement for new drugs and by refusing to provide coverage for uses of approved products for disease indications for which the FDA has not granted labeling approval. Third-party insurance coverage may not be available to patients for BYETTA and/or SYMLIN or any other products we discover and develop. If government and other third-party payors do not provide adequate coverage and reimbursement levels for our products, the market acceptance of these products may be reduced.

Competition in the biotechnology and pharmaceutical industries may result in competing products, superior marketing of other products and lower revenues or profits for us.

There are many companies that are seeking to develop products and therapies for the treatment of diabetes and other metabolic disorders. Our competitors include multinational pharmaceutical and chemical companies, specialized biotechnology firms and universities and other research institutions. A number of our largest competitors, including AstraZeneca, Bristol-Myers Squibb, GlaxoSmithKline, Lilly, Merck & Co., Novartis, Novo Nordisk, Pfizer, Sanofi-Aventis and Takeda Pharmaceuticals, are pursuing the development or marketing of pharmaceuticals that target the same diseases that we are targeting, and it is possible that the number of companies seeking to develop products and therapies for the treatment of diabetes, obesity and other metabolic disorders will increase. Many of our competitors have substantially greater financial, technical, human and other resources than we do and may be better equipped to develop, manufacture and market technologically superior products. In addition, many of these competitors have significantly greater experience than we do in undertaking preclinical testing and human clinical studies of new pharmaceutical products and in obtaining regulatory approvals of human therapeutic products. Accordingly, our competitors may succeed in obtaining FDA approval for superior products. Furthermore, now that we have received FDA approval for BYETTA and SYMLIN, we may also be competing against other companies with respect to our manufacturing and product distribution efficiency and sales and marketing capabilities, areas in which we have limited or no experience as an organization.

Our target patient population for BYETTA includes people with diabetes who have not achieved adequate glycemic control using metformin, sulfonylurea and/or a TZD, three common oral therapies for type 2 diabetes. Our target population for SYMLIN is people with either type 2 or type 1 diabetes whose therapy includes multiple mealtime insulin injections daily. Other products are currently in

development or exist in the market that may compete directly with the products that we are developing or marketing. Various other products are available or in development to treat type 2 diabetes, including:

- sulfonylureas;
- metformin;
- insulins, including injectable and inhaled versions;

- TZDs;
- glinides;
- DPP-IV inhibitors;
- incretin/GLP-1 agonists;
- CB-1 antagonists;
- PPARs; and
- alpha-glucosidase inhibitors.

In addition, several companies are developing various approaches, including alternative delivery methods, to improve treatments for type 1 and type 2 diabetes. We cannot predict whether our products will have sufficient advantages to cause health care professionals to adopt them over other products or that our products will offer an economically feasible alternative to other products. Our products could become obsolete before we recover expenses incurred in developing these products.

Delays in the conduct or completion of our clinical trials, the analysis of the data from our clinical trials or our manufacturing scale-up activities may result in delays in our planned filings for regulatory approvals, and may adversely affect our ability to enter into new collaborative arrangements.

We cannot predict whether we will encounter problems with any of our completed, ongoing or planned clinical studies that will cause us to delay or suspend our ongoing and planned clinical studies, delay the analysis of data from our completed or ongoing clinical studies or perform additional clinical studies prior to receiving necessary regulatory approvals. We also cannot predict whether we will encounter delays or an inability to create manufacturing processes for drug candidates that allow us to produce drug product in sufficient quantities to be economical, otherwise known as manufacturing scale-up.

If the results of our ongoing or planned clinical studies for our drug candidates are not available when we expect or if we encounter any delay in the analysis of data from our clinical studies or if we encounter delays in our ability to scale-up our manufacturing processes:

- we may be unable to complete our development programs for exenatide once weekly or

our obesity clinical trials;

- we may have to delay or terminate our planned filings for regulatory approval;

- we may not have the financial resources to continue research and development of any of our drug candidates; and

- we may not be able to enter into, if we chose to do so, any additional collaborative arrangements.

In addition, Lilly can terminate our collaboration for the development and commercialization of BYETTA and sustained-release formulations of exenatide at any time on 60 days notice.

Any of the following could delay the completion of our ongoing and planned clinical studies:

- ongoing discussions with the FDA or comparable foreign authorities regarding the scope or design of our clinical trials;

- delays in enrolling volunteers;

- lower than anticipated retention rate of volunteers in a clinical trial;

- negative results of clinical studies;

- insufficient supply or deficient quality of drug candidate materials or other materials necessary for the performance of clinical trials;

- our inability to reach agreement with Lilly regarding the scope, design, conduct or costs of clinical trials with respect to BYETTA, exenatide once weekly or nasal exenatide; or

- serious side effects experienced by study participants relating to a drug candidate.

We are substantially dependent on our collaboration with Lilly for the development and commercialization of BYETTA and dependent on Lilly and Alkermes for the development of exenatide once weekly.

We have entered into a collaborative arrangement with Lilly, who currently markets diabetes therapies and is developing additional diabetes drug candidates, to commercialize BYETTA and further develop sustained-release formulations of BYETTA, including exenatide once weekly. We entered into this collaboration in order to:

- fund some of our research and development activities;

- assist us in seeking and obtaining regulatory approvals; and

- assist us in the successful commercialization of BYETTA and exenatide once weekly.

In general, we cannot control the amount and timing of resources that Lilly may devote to our collaboration. If Lilly fails to assist in the further development of exenatide once weekly or the commercialization of BYETTA, or if Lilly s efforts are not effective, our business may be negatively affected. We are relying on Lilly to obtain regulatory approvals for and successfully commercialize BYETTA and exenatide once weekly outside the United States. Our collaboration with Lilly may not continue or result in additional successfully commercialized drugs. Lilly can terminate our collaboration at any time upon 60 days notice. If Lilly ceased funding and/or developing and commercializing BYETTA or exenatide once weekly, we would have to seek additional sources for funding and may have to delay, reduce or eliminate one or more of our commercialization and development programs for these compounds. If Lilly does not successfully commercialize BYETTA outside the United States we may receive limited or no revenues from them. In addition, we are dependent on Alkermes to successfully develop and transfer to us its technology for manufacturing exenatide once weekly. If Alkermes technology is not successfully developed to effectively deliver exenatide in a sustained release formulation, or Alkermes does not devote sufficient resources to the collaboration, our efforts to develop sustained release formulations of exenatide could be delayed or curtailed.

If our patents are determined to be unenforceable or if we are unable to obtain new patents based on current patent applications or for future inventions, we may not be able to prevent others from using our intellectual property. If we are unable to obtain licenses to third party patent rights for required technologies, we could be adversely affected.

We own or hold exclusive rights to many issued United States patents and pending United States patent applications related to the development and commercialization of exenatide, including BYETTA and exenatide once weekly, SYMLIN and our other drug candidates. These patents and applications cover composition-of-matter, medical indications, methods of use, formulations and other inventive results. We have issued and pending applications for formulations of BYETTA and exenatide once weekly, but we do not have a composition-of-matter patent covering exenatide. We also own or hold exclusive rights to various foreign patent applications

that correspond to issued United States patents or pending United States patent applications.

Our success will depend in part on our ability to obtain patent protection for our products and drug candidates and technologies both in the United States and other countries. We cannot guarantee that any patents will issue from any pending or future patent applications owned by or licensed to us. Alternatively, a third party may successfully challenge or circumvent our patents. Our rights under any issued patents may not provide us with sufficient protection against competitive products or otherwise cover commercially valuable products or processes. For example, our SYMLIN AND BYETTA products are subject to the provisions of the Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act, which provides data exclusivity for a certain period of time. Once this exclusivity period expires, the Hatch-Waxman Act allows generic manufacturers to file Abbreviated New Drug Applications, or ANDAs, with the FDA requesting approval of generic versions of previously-approved products. For example, a generic pharmaceutical manufacturer could file an ANDA for SYMLIN as early as March 2009 and for BYETTA as early as April 2009. If an ANDA is filed for one of our approved products prior to expiration of the patents covering those products, it could result in our initiating patent infringement litigation to enforce our rights. We can provide no assurances that we would prevail in such an action or in any challenge related to our patent rights.

In addition, because patent applications in the United States are maintained, in general, in secrecy for 18 months after the filing of the applications, and publication of discoveries in the scientific or patent literature often lag behind actual discoveries, we cannot be sure that the inventors of subject matter covered by our patents and patent applications were the first to invent or the first to file patent applications for these inventions. Third parties have filed, and in the future are likely to file, patent applications on inventions similar to ours. From time-to-time we have participated in, and in the future are likely to participate in, interference proceedings declared by the United States Patent and Trademark Office to determine priority of invention, which could result in a loss of our patent position. We have also participated in, and in the future are likely to participate in, opposition proceedings against our patents in other jurisdictions, such as Europe and Australia. Furthermore, we may not have identified all United States and foreign patents that pose a risk of infringement.

We also rely upon licensing opportunities for some of our technologies. We cannot be certain that we will not lose our rights to certain patented technologies under existing licenses or that we will be able to obtain a license to any required third-party technology. If we lose our licensed technology rights or if we are not able to obtain a required license, we could be adversely affected.

We may be unable to obtain regulatory clearance to market our drug candidates in the United States or foreign countries on a timely basis, or at all.

Our drug candidates are subject to extensive government regulations related to development, clinical trials, manufacturing and commercialization. The process of obtaining FDA and other regulatory approvals is costly, time-consuming, uncertain and subject to unanticipated delays. Regulatory authorities may refuse to approve an application for approval of a drug candidate if they believe that applicable regulatory criteria are not satisfied. Regulatory authorities may also require additional testing for safety and efficacy. Moreover, if the FDA grants regulatory approval of a product, the approval may be limited to specific indications or limited with respect to its distribution, and expanded or additional indications for approved drugs may not be approved, which could limit our revenues. Foreign regulatory authorities may apply similar limitations or may refuse to grant any approval. Unexpected changes to the FDA or foreign regulatory approval process could also delay or prevent the approval of our drug candidates.

The data collected from our clinical trials may not be sufficient to support approval of our drug candidates or additional or expanded indications by the FDA or any foreign regulatory authorities. Biotechnology stock prices have declined significantly in certain instances where companies have failed to meet expectations with respect to FDA approval or the timing for FDA approval. If the FDA s or any foreign regulatory authority s response is delayed or not favorable for any of our drug candidates, our stock price could decline significantly.

Moreover, manufacturing facilities operated by us or by the third-party manufacturers with whom we may contract to manufacture our unapproved drug candidates may not pass an FDA or other regulatory authority preapproval inspection. Any failure or delay in obtaining these approvals could prohibit or delay us or any of our business partners from marketing these drug candidates.

Consequently, even if we believe that preclinical and clinical data are sufficient to support regulatory approval for our drug candidates, the FDA and foreign regulatory authorities may not ultimately approve our drug candidates for commercial sale in any jurisdiction. If our drug candidates are not approved, our ability to generate revenues may be limited and our business will be adversely affected.

Litigation regarding patents and other proprietary rights may be expensive, cause delays in bringing products to market and harm our ability to operate.

Our success will depend in part on our ability to operate without infringing the proprietary rights of third parties and preventing others from infringing our patents. Challenges by pharmaceutical companies against the patents of competitors are common. Legal standards relating to the validity of patents covering pharmaceutical and biotechnological inventions and the scope of claims made under these patents are still developing. As a result, our ability to obtain and enforce patents is uncertain and involves complex legal and factual questions. Third parties may challenge, in courts or through patent office proceedings, or infringe upon, existing or future patents. In the event that a third party challenges a patent, a court or patent office may invalidate the patent or determine that the patent is not enforceable. Proceedings involving our patents or patent applications or those of others could result in adverse decisions about:

- the patentability of our inventions, products and drug candidates; and/or
- the enforceability, validity or scope of protection offered by our patents.

The manufacture, use or sale of any of our products or drug candidates may infringe on the patent rights of others. If we are unable to avoid infringement of the patent rights of others, we may be required to seek a license, defend an infringement action or challenge the validity of the patents in court. Patent litigation is costly and time consuming. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, if we do not obtain a license, develop or obtain non-infringing technology, fail to successfully defend an infringement action or have infringing patents declared invalid, we may:

- incur substantial monetary damages;
- encounter significant delays in bringing our drug candidates to market; and/or
- be precluded from participating in the manufacture, use or sale of our products or drug candidates or methods of treatment requiring licenses.

We are subject to fraud and abuse and similar laws and regulations, and a failure to comply with such regulations or prevail in any litigation related to noncompliance could harm our business.

Upon approval of BYETTA and SYMLIN by the FDA, we became subject to various health care fraud and abuse laws, such as the Federal False Claims Act, the federal anti-kickback statute and other state and federal laws and regulations. Pharmaceutical companies have faced lawsuits and investigations pertaining to violations of these laws and regulations. We cannot guarantee that measures that we have taken to prevent such violations, including our corporate compliance program, will protect us from future violations, lawsuits or investigations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

Our financial results will fluctuate, and these fluctuations may cause our stock price to fall.

Forecasting future revenues is difficult, especially since we launched our first products in 2005 and the level of market acceptance of these products may change rapidly. In addition, our customer base is highly concentrated with four customers accounting for most of our net product sales. Fluctuations in the buying patterns of these customers, which may result from seasonality, wholesaler buying decisions or other factors outside of our control, could significantly affect the level of our net sales on a period to period basis. As a result, it is reasonably likely that our financial results will fluctuate to an extent that may not meet with market expectations and that also may adversely affect our stock price. There are a number of other factors that could cause our financial results to fluctuate unexpectedly, including:

- product sales;
- cost of product sales;

- achievement and timing of research and development milestones;
- collaboration revenues;
- cost and timing of clinical trials, regulatory approvals and product launches;
- marketing and other expenses;
- manufacturing or supply issues; and
- potential acquisitions of businesses and technologies and our ability to successfully integrate any such acquisitions into our existing business.

We may require additional financing in the future, which may not be available to us on favorable terms, or at all.

We intend to use our available cash for:

- Commercialization of BYETTA and SYMLIN;
- Establishment of additional manufacturing sources, including our Ohio manufacturing facility;
- Development of exenatide once weekly and other pipeline candidates;
- Executing our INTO strategy;
- Our other research and development activities;
- Other operating expenses;
- Potential acquisitions or investments in complementary technologies or businesses; and
- Other general corporate purposes.

We may also be required to use our cash to pay principal and interest on outstanding debt, including a $125 million term loan due in 2010 and $775 million in outstanding principal amount of convertible senior notes, of which $200 million is due in 2011, referred to as the 2004 Notes, and $575 million is due in 2014, referred to as the 2007 Notes.

Our business has a substantial risk of product liability claims, and insurance may not be adequate to cover these claims.

Our business exposes us to potential product liability risks that are inherent in the testing, manufacturing and marketing of human therapeutic products. Product liability claims could result in the imposition of substantial liability on us, a recall of products, or a change in the indications for which they may be used. We currently have limited product liability insurance coverage. We cannot assure you that our insurance will provide adequate coverage against potential liabilities.

Our ability to enter into and maintain third-party relationships is important to our successful development and commercialization of BYETTA, SYMLIN and our other drug candidates and to our potential profitability.

With respect to sales, marketing and distribution outside the United States, we will be substantially dependent on Lilly for activities relating to BYETTA and sustained-release formulations of BYETTA, including exenatide once weekly. We believe that we will likely need to enter into marketing and distribution arrangements with third parties for, or find a corporate partner who can provide support for, the development and commercialization of SYMLIN or our other drug candidates outside the United States. We may also enter into arrangements with third parties for the commercialization of SYMLIN or any of our other drug candidates within the United States.

With respect to BYETTA and, if approved, exenatide once weekly, Lilly is co-promoting within the United States. If Lilly ceased commercializing BYETTA or, if approved, exenatide once weekly, for any reason, we would likely need to either enter into a marketing and distribution arrangement with a third party for those products or significantly increase our internal sales and commercialization infrastructure.

We may not be able to enter into marketing and distribution arrangements or find a corporate partner for SYMLIN or our other drug candidates as we deem necessary. If we are not able to enter into a marketing or distribution arrangement or find a corporate partner who can provide support for commercialization of our drug candidates as we deem necessary, we may not be able to successfully perform these marketing or distribution activities. Moreover, any new marketer or distributor or corporate partner for our drug candidates, including Lilly, with whom we choose to contract may not establish adequate sales and distribution capabilities or gain market acceptance for our products, if any.

We have a significant amount of indebtedness. We may not be able to make payments on our indebtedness, and we may incur additional indebtedness in the future, which could adversely affect our operations.

In April 2004, we issued $200 million of the 2004 Notes and in June 2007, we issued $575 million of the 2007 Notes. In December 2007, we entered into a $125 million term loan due in December 2010, or the Term Loan. Our ability to make payments on our debt, including the 2004 and 2007 Notes and the Term Loan, will depend on our future operating performance and ability to generate cash and may also depend on our ability to obtain additional debt or equity financing. During each of the last five years, our operating cash flows were negative and insufficient to cover our fixed charges. We

may need to use our cash to pay principal and interest on our debt, thereby reducing the funds available to fund our research and development programs, strategic initiatives and working capital requirements. Our ability to generate sufficient operating cash flow to service our indebtedness, including the 2004 and 2007 Notes and the Term Loan, and fund our operating requirements will depend on our ability, alone or with others, to successfully develop, manufacture, obtain required regulatory approvals for and market our drug candidates, as well as other factors, including general economic, financial, competitive, legislative and regulatory conditions, some of which are beyond our control. Our debt service obligations increase our vulnerabilities to competitive pressures, because many of our competitors are less leveraged than we are. If we are unable to generate sufficient operating cash flow to service our indebtedness and fund our operating requirements, we may be forced to reduce or defer our development programs, sell assets or seek additional debt or equity financing, which may not be available to us on satisfactory terms or at all. Our level of indebtedness may make us more vulnerable to economic or industry downturns. If we incur new indebtedness, the risks relating to our business and our ability to service our indebtedness will intensify.

We may be required to redeem our convertible senior notes upon a designated event or repay the Term Loan upon an event of default.

Holders of the 2004 and 2007 Notes may require us to redeem all or any portion of their notes upon the occurrence of certain designated events which generally involve a change in control of our company. The lenders under the Term Loan may require us to repay outstanding principal and accrued interest due under the Term Loan upon the occurrence of an event of default, which could include, among other things, nonpayment of principle and interest, violation of covenants and a change in control. We may not have sufficient cash funds to redeem the notes upon a designated event or repay the Term Loan upon an event of default. We may elect, subject to certain conditions, to pay the redemption price for the 2004 Notes in our common stock or a combination of cash and our common stock. We may be unable to satisfy the requisite conditions to enable us to pay some or all of the redemption price for the 2004 Notes in our common stock. In addition, although there are currently no restrictions on our ability to pay the redemption price under our existing debt agreements, future debt agreements may prohibit us from repaying the redemption price of either of the notes in either cash or common stock. If we are prohibited from redeeming the 2004 Notes or 2007 Notes, we could seek consent from our lenders to redeem the notes. If we are unable to obtain their consent, we could attempt to refinance the notes. If we were unable to obtain a consent or refinance, we would be prohibited from redeeming the notes. If we were unable to redeem the notes upon a designated event, it would result in an event of default under the indentures governing the notes. An event of default under the indentures could result in a further event of default under our other then-existing debt including the Term Loan. In addition, the occurrence of a designated event may be an event of default under our other debt. Further, an event of default under the Term Loan could result in an event of default under the indentures governing the notes.

If our research and development programs fail to result in additional drug candidates, the growth of our business could be impaired.

Certain of our research and development programs for drug candidates are at an early stage and will require significant research, development, preclinical and clinical testing, manufacturing scale-up activities, regulatory approval and/or commitments of resources before commercialization. We cannot predict whether our research will lead to the discovery of any additional drug candidates that could generate additional revenues for us.

Our future success depends on our chief executive officer, and other key executives and our ability to attract, retain and motivate qualified personnel.

We are highly dependent on our chief executive officer, and the other principal members of our executive and scientific teams. The unexpected loss of the services of any of these persons might impede the achievement of our research, development and commercialization objectives. Recruiting and retaining qualified sales, marketing, regulatory, scientific and other personnel and consultants will also be critical to our success. We may not be able to attract and retain these personnel and consultants on acceptable terms given the competition between numerous pharmaceutical and biotechnology companies. We do not maintain key person insurance on any of our employees.

We may be unable to adequately prevent disclosure of trade secrets and other proprietary information.

In order to protect our proprietary technology and processes, we rely in part on confidentiality agreements with our corporate partners, employees, consultants, manufacturers, outside scientific collaborators and sponsored researchers and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets and proprietary information.

Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Our research and development activities and planned manufacturing activities involve the use of hazardous materials, which subject us to regulation, related costs and delays and potential liabilities.

Our research and development and our planned manufacturing activities involve the controlled use of hazardous materials, chemicals and various radioactive compounds. Although we believe that our research and development safety procedures for handling and disposing of these materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. In addition, as part of the development of our planned manufacturing activities, we will need to develop additional safety procedures for the handling and disposing of hazardous materials. If an accident occurs, we could be held liable for resulting damages, which could be substantial. We are also subject to numerous environmental, health and workplace safety laws and regulations, including those governing laboratory procedures, exposure to blood-borne pathogens and the handling of biohazardous materials. Additional federal, state and local laws and regulations affecting our operations may be adopted in the future. We may incur substantial costs to comply with, and substantial fines or penalties if we violate, any of these laws or regulations.

We are exposed to potential risks from legislation requiring companies to evaluate internal control over financial reporting.

The Sarbanes-Oxley Act requires that we report annually on the effectiveness of our internal control over financial reporting. Among other things, we must perform systems and processes evaluation and testing. We must also conduct an assessment of our internal control to allow management to report on, and our independent registered public accounting firm to attest to, our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. In connection with our Section 404 compliance efforts, we have incurred or expended, and expect to continue to incur or expend, substantial accounting and other expenses and significant management time and resources. We have implemented certain remediation activities resulting from our ongoing assessment of internal control over financial reporting. Our future assessment, or the future assessments by our independent registered public accounting firm, may reveal material weaknesses in our internal control. If material weaknesses are identified in the future we would be required to conclude that our internal control over financial reporting are ineffective and we could be subject to sanctions or investigations by the SEC, the NASDAQ Stock Market or other regulatory authorities, which would require additional financial and management resources and could adversely affect the market price of our common stock.

We have implemented anti-takeover provisions that could discourage or prevent an acquisition of our company, even if the acquisition would be beneficial to our stockholders, and as a result our management may become entrenched and hard to replace.

Provisions in our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. These provisions include:

- allowing our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors;

- allowing our board of directors to issue, without stockholder approval, up to 5.5 million shares of preferred stock with terms set by the board of directors;

- limiting the ability of holders of our outstanding common stock to call a special meeting of our stockholders; and

- preventing stockholders from taking actions by written consent and requiring all stockholder actions to be taken at a meeting of our stockholders.

Each of these provisions, as well as selected provisions of Delaware law, could discourage potential takeover attempts, could adversely affect the trading price of our securities and could cause our management to become entrenched and hard to replace. In addition to provisions in our charter documents and under Delaware law, an acquisition of our company could be made more difficult by our employee benefits plans and our employee change in control severance plan, under which, in connection with a change in control and termination of employment, stock options held by our employees may become vested and our officers may receive severance benefits. We also have implemented a stockholder rights plan, also called a poison pill, which could make it uneconomical for a third party to acquire us on a hostile basis.

Our executive officers, directors and major stockholders control approximately 78% of our common stock.

As of June 30, 2008, executive officers, directors and holders of 5% or more of our outstanding common stock, in the aggregate, owned or controlled approximately 78% of our outstanding common stock. As a result, these stockholders are able to influence all matters requiring approval by our stockholders, including the election of directors and the approval of corporate transactions. This concentration of ownership may also delay, deter or prevent a change in control of our company and may make some transactions more difficult or impossible to complete without the support of these stockholders.

Substantial future sales of our common stock by us or our existing stockholders or the conversion of our convertible senior notes to common stock could cause the trading price of our common stock to fall.

Sales by existing stockholders of a large number of shares of our common stock in the public market or the perception that additional sales could occur could cause the trading price of our common stock to drop. Likewise, the issuance of shares of common stock upon conversion of our convertible notes or redemption of our convertible notes upon a designated event, or upon additional convertible debt or equity financings or other share issuances by us, including shares issued in connection with potential future strategic alliances, could adversely affect the trading price of our common stock. Our convertible notes are currently convertible into a total of up to 15.2 million shares. In addition, the existence of these notes may encourage short selling of our common stock by market participants.

Significant volatility in the market price for our common stock could expose us to litigation risk.

The market prices for securities of biopharmaceutical and biotechnology companies, including our common stock, have historically been highly volatile, and the market from time to time has experienced significant price and volume fluctuations that are unrelated to the quarterly operating performance of these biopharmaceutical and biotechnology companies. Since January 1, 2006, the high and low sales price of our common stock varied significantly, as shown in the following table:

	High	Low
Year ending December 31, 2008		
Third Quarter (through July 25, 2008)	$ 29.57	$ 24.13
Second Quarter	$ 33.22	$ 25.30
First Quarter	$ 37.38	$ 23.75
Year ended December 31, 2007		
Fourth Quarter	$ 51.10	$ 35.83
Third Quarter	$ 53.25	$ 40.86
Second Quarter	$ 46.93	$ 36.91
First Quarter	$ 42.45	$ 35.55
Year ended December 31, 2006		
Fourth Quarter	$ 48.48	$ 35.74
Third Quarter	$ 51.54	$ 40.76
Second Quarter	$ 49.37	$ 38.16
First Quarter	$ 49.08	$ 35.58

Given the uncertainty of our future funding, whether BYETTA and SYMLIN will meet our expectations, and the regulatory approval of our other drug candidates, we may continue to experience volatility in our stock price for the foreseeable future. In addition, the following factors may significantly affect the market price of our common stock:

- our financial results and/or fluctuations in our financial results;
- safety issues with BYETTA, SYMLIN or our product candidates;
- clinical study results;
- determinations by regulatory authorities with respect to our drug candidates;
- our ability to complete our Ohio manufacturing facility and the commercial manufacturing process for exenatide once weekly;

- developments in our relationships with current or future collaborative partners;

- our ability to successfully execute our commercialization strategies;

- developments in our relationships with third-party manufacturers of our products and other parties who provide services to us;

- technological innovations or new commercial therapeutic products by us or our competitors;

- developments in patent or other proprietary rights; and

- governmental policy or regulation, including with respect to pricing and reimbursement.

Broad market and industry factors also may materially adversely affect the market price of our common stock, regardless of our actual operating performance. Periods of volatility in the market price of our common stock expose us to securities class-action litigation, and we may be the target of such litigation as a result of market price volatility in the future.

ITEM 4. Submission of Matters to a Vote of Security Holders

Our Annual Meeting of Stockholders was held on May 30, 2008. At the Annual Meeting, the stockholders of the Company (i) elected each of the persons listed below to serve as a director of Amylin until the next annual meeting or until his/her successor is elected, (ii) approved an increase of 3.5 million shares in the aggregate number of shares of our common stock authorized for issuance under our 2001 Equity Incentive Plan, and (iii) ratified the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008.

We had 137,058,518 shares of common stock outstanding and entitled to vote as of April 4, 2008, the record date for the Annual Meeting. At the Annual Meeting, 124,341,882 shares of common stock were present in person or represented by proxy for the four proposals indicated above. The following sets forth detailed information regarding the results of the voting at the Annual Meeting:

Proposal 1: Election of Directors.

Director	Votes in Favor	Votes Withheld
Adrian Adams	116,444,063	7,897,818

Steven R. Altman	116,507,996	7,833,885
Teresa Beck	116,530,336	7,811,545
Daniel M. Bradbury	116,162,509	8,179,372
Joseph C. Cook, Jr.	116,263,036	8,078,845
Karin Eastham	116,403,046	7,938,835
James R. Gavin III, M.D., PhD.	115,234,157	9,107,724
Ginger L. Graham	116,331,797	8,010,084
Howard E. Greene, Jr.	116,447,174	7,894,707
Jay S. Skyler, M.D., MACP	114,779,160	9,562,721
Joseph P. Sullivan	116,528,886	7,812,995
James N. Wilson	115,174,305	9,167,576

Proposal 2: Approve an increase of 3.5 million shares in the aggregate number of shares of our common stock authorized for issuance under our 2001 Equity Incentive Plan.

Votes in Favor:	74,761,567
Votes Against:	26,716,459
Abstentions:	138,064
Broker Non Vote:	22,725,792

Proposal 3: Ratification of selection of Ernst & Young LLP as our independent registered public accounting firm.

Votes in Favor:	116,869,889
Votes Against:	862,013
Abstentions:	6,609,980

ITEM 6. Exhibits

The following exhibits are included as part of this report:

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation (filed as an exhibit to Registrant s registration statement on Form S-1 (File No. 333-44195) or amendments thereto and incorporated herein by reference)
3.2	Third Amended and Restated Bylaws (filed as an exhibit to Registrant s Current Report on Form 8-K filed on October 31, 2007 and incorporated herein by reference)
3.3	Certificate of Amendment of Amended and Restated Certificate of Incorporation (filed as an exhibit to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 and incorporated herein by reference)
3.4	Certificate of Amended and Restated Certificate of Incorporation (filed as an exhibit to Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference)
4.1	Specimen Common Stock Certificate (filed as an exhibit to Registrant s registration statement on Form S-1 (File No. 333-44195) or amendments thereto and incorporated herein by reference)
4.2	Rights Agreement, dated as of June 17, 2002, between the Registrant and American Stock Transfer & Trust Company (filed as an exhibit to Registrant s Current Report on Form 8-K filed on June 18, 2002 and incorporated herein by reference)
4.3	First Amendment to Rights Agreement dated December 13, 2002, between the Registrant and American Stock Transfer & Trust Company (filed as an exhibit to Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and incorporated herein by reference)
4.4	Second Amendment to Rights Agreement, dated March 31, 2008, between the Registrant and American Stock Transfer and Trust Company (filed as an exhibit to Registrant s Current Report on Form 8-K filed on March 13, 2008 and incorporated herein by reference)
4.5	Form of Rights Certificate (filed as an exhibit to Registrant s Current Report on Form 8-K filed on June 18, 2002 and incorporated herein by reference)
4.6	Certificate of Designation of Series A Junior Participating Preferred Stock (filed as an exhibit to Registrant s Current Report on Form 8-K filed on June 18, 2002 and incorporated herein by reference)
10.1	First Amendment to Exenatide Manufacturing Agreement, dated January 6, 2006, between the Registrant and Mallinckrodt Inc.
10.2	Amended and Restated Commercial Supply Agreement, dated April 1, 2008, between the Registrant and Wockhardt UK (Holdings) Ltd.*
10.3	Addendum to U.S. Co-Promotion Agreement, dated May 8, 2008, between the Registrant and Eli Lilly and Company*
10.4	Consulting Agreement, dated June 1, 2008, between the Registrant and Alain D. Baron+
10.5	Third Amendment to Exenatide Manufacturing Agreement, dated June 16, 2008, between the Registrant and Mallinckrodt Inc.*
31.1	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

31.2	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certifications Pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

+ Indicates a management contract or compensatory plan.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Amylin Pharmaceuticals, Inc.

Date: July 31, 2008

By: /S/ MARK G. FOLETTA
Mark G. Foletta,
Senior Vice President, Finance and Chief Financial Officer
(on behalf of the registrant and as the registrant s principal financial and accounting officer)