

GENENTECH INC  
Form 10-Q  
November 02, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark  
One)

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

**For the quarterly period ended September 30, 2006**

or

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .**

**Commission File Number: 1-9813**

**GENENTECH, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**94-2347624**

(I.R.S. Employer Identification Number)

**1 DNA Way, South San Francisco, California 94080-4990**

(Address of principal executive offices and Zip Code)

**(650) 225-1000**

(Registrant's telephone number, including area code)

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

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

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Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

**Class**

**Number of Shares Outstanding**

Common Stock \$0.02 par value

1,054,000,743 Outstanding at October  
27, 2006

**GENENTECH, INC.**  
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In this report, “Genentech,” “we,” “us” and “our” refer to Genentech, Inc.; “Common Stock” refers to Genentech’s Common Stock, par value \$0.02 per share, “Special Common Stock” refers to Genentech’s callable puttable Common Stock, par value \$0.02 per share, all of which was redeemed by Roche Holdings, Inc. (or “Roche”) on June 30, 1999.

We own or have rights to various copyrights, trademarks and trade names used in our business including the following: Activase® (alteplase, recombinant) tissue-plasminogen activator; Avastin® (bevacizumab) anti-VEGF antibody; Cathflo® Activase® (alteplase for catheter clearance); Herceptin® (trastuzumab) anti-HER2 antibody; Lucentis™ (ranibizumab) anti-VEGF antibody fragment; Nutropin® (somatropin (rDNA origin) for injection) growth hormone; Nutropin AQ® and Nutropin AQ Pen® (somatropin (rDNA origin) for injection) liquid formulation growth

hormone; Omnitarg™ (pertuzumab) HER dimerization inhibitor; Pulmozyme® (dornase alfa, recombinant) inhalation solution; Raptiva® (efalizumab) anti-CD11a antibody; and TNKase® (tenecteplase) single-bolus thrombolytic agent. Rituxan® (rituximab) anti-CD20 antibody is a registered trademark of Biogen Idec Inc.; Tarceva® (erlotinib) is a trademark of OSI Pharmaceuticals, Inc.; and Xolair® (omalizumab) anti-IgE antibody is a trademark of Novartis AG. This report also includes other trademarks, service marks and trade names of other companies.

**PART I—FINANCIAL INFORMATION****Item 1. Financial Statements**

**GENENTECH, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
*(In millions, except per share amounts)*  
*(Unaudited)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Revenues</b>				
Product sales (including amounts from related parties: three months—2006-\$87; 2005-\$58; nine months—2006-\$220; 2005-\$140)	\$ 1,941	\$ 1,451	\$ 5,395	\$ 3,911
Royalties (including amounts from related parties: three months—2006-\$230; 2005-\$123; nine months—2006-\$603; 2005-\$336)	364	238	966	670
Contract revenue (including amounts from related parties: three months—2006-\$52; 2005-\$37; nine months—2006-\$114; 2005-\$94)	79	63	208	159
<b>Total operating revenues</b>	<b>2,384</b>	<b>1,752</b>	<b>6,569</b>	<b>4,740</b>
<b>Costs and expenses</b>				
Cost of sales (including related party amounts: three months—2006-\$63; 2005-\$45; nine months—2006-\$178; 2005-\$134)	297	236	843	766
Research and development (including related party amounts: three months—2006-\$93; 2005-\$55; nine months—2006-\$238; 2005-\$150) (including contract related: three months—2006-\$48; 2005-\$47; nine months—2006-\$135; 2005-\$111)	454	329	1,218	850
Marketing, general and administrative	501	343	1,414	1,006
Collaboration profit sharing (including amounts from related party: three months—2006-\$46; 2005-\$41; nine months—2006-\$137; 2005-\$93)	250	220	735	595
Recurring charges related to redemption	26	27	79	96
Special items: litigation-related	13	14	40	44
<b>Total costs and expenses</b>	<b>1,541</b>	<b>1,169</b>	<b>4,329</b>	<b>3,357</b>
Operating income	843	583	2,240	1,383
Other income (expense):				
Interest and other income, net	74	42	249	98

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Interest expense	(19)	(20)	(56)	(27)
Total other income, net	55	22	193	71
Income before taxes	898	605	2,433	1,454
Income tax provision	330	246	914	514
<b>Net income</b>	<b>\$ 568</b>	<b>\$ 359</b>	<b>\$ 1,519</b>	<b>\$ 940</b>
<b>Earnings per share</b>				
Basic	\$ 0.54	\$ 0.34	\$ 1.44	