

CHANGING THE WAY CANCER IS TREATED[®]



ACCOUNTING FOR CONVERTIBLE SENIOR NOTES

November 3, 2009

NASDAQ: ONXX

ACCOUNTING FOR NOTES IN ACCORDANCE WITH U.S. GAAP

- In August 2009, Onyx issued \$230 million in convertible senior notes due 2016, and, due to its conversion options, this type of security is commonly referred to as Instrument X
- U.S. GAAP requires an issuer to account for Instrument X as if the instrument was issued **without a conversion feature** at the issuer's implied (effective interest) rate
- Therefore, the debt portion (liability) of the instrument would be recorded at the present value based on the implied interest rate
- The difference between the par value of the instrument and the **liability** component is recorded to **equity**
- Subsequently, the instrument is accreted to its par value over its expected life using the issuer's implied rate
- The non-cash accretion each period is recorded as interest expense

IMPACT ON BALANCE SHEET

	<u>September 30, 2009</u>
	<u>(Unaudited)</u>
ASSETS	
Cash, cash equivalents and current marketable securities	\$ 804,670
Other current assets	58,833
Non-current marketable securities	38,410
Other assets	12,138
Total assets	<u>\$ 914,051</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	22,888
Convertible senior notes due 2016	141,559
Other liabilities	986
Stockholders' equity	748,618
Total liabilities and stockholders' equity	<u>\$ 914,051</u>
Calculation of <u>equity component</u> :	
Par value of convertible senior notes	= \$230,000
Less present value of convertible senior notes	(140,532)
	<u>= \$89,468</u>
Calculation of <u>carrying value</u> of convertible senior notes at September 30, 2009:	
Present value of notes (liability component) at implied rate of interest of 12.5%	= \$140,532
Add amortization of debt discount	+ 1,027
	<u>= \$141,559</u>

IMPACT ON INCOME STATEMENT

Condensed Statements of Operations (Unaudited)

	Three Months Ended Sep. 30, 2009	Nine Months Ended Sep. 30, 2009
	(In thousands)	
Income from operations	\$ 10,062	\$ 21,697
Investment income	1,015	3,108
Interest expense	<u>(2,255)</u>	<u>(2,255)</u>
Income before provision for income taxes	8,822	22,550
Provision for income taxes	<u>589</u>	<u>878</u>
Net income	<u>\$ 8,233</u>	<u>\$ 21,672</u>

Interest Expense is comprised of the following three items:

1. Cash payments for interest on notes = actual interest earned on the notes during the period based on 4.0% interest rate
2. Amortization of discount on notes = discount on the notes amortized over the life of the notes (7 years) using the implied rate (12.5%)
3. Issuance costs of notes = costs related to the issuance of the debt amortized straight-line over the life of the notes (7 years)