CELGENE CORP /DE/
Form 10-Q
November 02, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2011

OR

o **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 001-34912

CELGENE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**22-2711928**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
86 Morris Avenue, Summit, NJ	**07901**
(Address of principal executive offices)	(Zip Code)

(908) 673-9000

(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	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 þ

At October 25, 2011, 443,930,657 shares of Common Stock, par value $.01 per share, were outstanding.

Table of Contents

CELGENE CORPORATION

FORM 10-Q TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

CELGENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2011	2010	2011	2010
Revenue:				
Net product sales	$ 1,219,118	$ 885,656	$ 3,457,055	$ 2,468,164
Collaborative agreements and other revenue	3,766	2,241	16,468	7,165
Royalty revenue	26,853	22,214	84,650	78,728
Total revenue	1,249,737	910,111	3,558,173	2,554,057
Expenses:				
Cost of goods sold (excluding amortization of acquired intangible assets)	94,645	63,542	348,356	193,450
Research and development	356,839	253,547	1,163,837	800,965
Selling, general and administrative	303,303	228,281	911,207	655,522
Amortization of acquired intangible assets	75,044	46,540	214,181	135,201
Acquisition related (gains) charges and restructuring, net	(11,209)	7,495	(117,430)	20,193
Total costs and expenses	818,622	599,405	2,520,151	1,805,331
Operating income	431,115	310,706	1,038,022	748,726
Other income and expense:				
Interest and investment income, net	8,481	12,801	18,948	37,010
Equity in losses of affiliated companies	1,661	1,384	966	746
Interest expense	10,292	414	31,460	1,321
Other income (expense), net	(15,002)	8,453	(6,684)	7,130
Income before income taxes	412,641	330,162	1,017,860	790,799
Income tax provision	39,657	49,011	110,582	119,854
Net income	372,984	281,151	907,278	670,945
Less: Net loss attributable to non-controlling interest			694	
Net income attributable to Celgene	$ 372,984	$ 281,151	$ 907,972	$ 670,945

Net income per share attributable to Celgene:

Basic	$ 0.83	$ 0.61	$ 1.97	$ 1.46
Diluted	$ 0.81	$ 0.60	$ 1.94	$ 1.44
Weighted average shares:				
Basic	452,019	459,653	460,161	459,957
Diluted	459,530	466,332	467,052	467,137

See accompanying Notes to Consolidated Financial Statements

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except per share amounts)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 1,794,927	$ 1,351,128
Marketable securities available for sale	784,160	1,250,173
Accounts receivable, net of allowances of $25,293 and $13,104 at September 30, 2011 and December 31, 2010, respectively	888,168	706,429
Inventory	187,525	260,130
Deferred income taxes	152,365	151,779
Other current assets	242,937	275,005
Assets held for sale	52,462	348,555
Total current assets	4,102,544	4,343,199
Property, plant and equipment, net	490,192	509,919
Investment in affiliated companies	27,470	23,073
Intangible assets, net	2,920,012	3,248,498
Goodwill	1,896,283	1,896,344
Other assets	326,606	156,129
Total assets	$ 9,763,107	$ 10,177,162
Liabilities and Stockholders Equity		
Current liabilities:		
Short-term borrowings	$ 269,125	$
Accounts payable	98,405	94,465
Accrued expenses	640,247	592,336
Income taxes payable	10,078	11,423
Current portion of deferred revenue	13,626	16,362
Other current liabilities	132,946	309,214
Liabilities of disposal group	7,531	46,582
Total current liabilities	1,171,958	1,070,382
Deferred revenue, net of current portion	12,616	12,785
Income taxes payable	631,376	551,896
Deferred income taxes	786,046	882,870
Other non-current liabilities	278,705	416,173
Long-term debt, net of discount	1,277,316	1,247,584
Total liabilities	4,158,017	4,181,690
Commitments and Contingencies		
Equity:		

Preferred stock, $.01 par value per share, 5,000,000 shares authorized; none outstanding at September 30, 2011 and December 31, 2010				
Common stock, $.01 par value per share, 575,000,000 shares authorized; issued 485,070,329 and 482,164,353 shares at September 30, 2011 and December 31, 2010, respectively		4,851		4,822
Common stock in treasury, at cost; 39,654,766 and 11,776,036 shares at September 30, 2011 and December 31, 2010, respectively		(2,109,066)		(545,588)
Additional paid-in capital		6,618,937		6,350,240
Retained earnings		1,156,238		248,266
Accumulated other comprehensive loss		(65,870)		(73,767)
Total stockholders equity		5,605,090		5,983,973
Non-controlling interest				11,499
Total equity		5,605,090		5,995,472
Total liabilities and equity	$	9,763,107	$	10,177,162

See accompanying Notes to Consolidated Financial Statements

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Nine-Month Periods Ended September 30,	
	2011	**2010**
Cash flows from operating activities:		
Net income	$ 907,278	$ 670,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of long-term assets	53,051	38,880
Amortization	215,961	136,048
Allocation of pre-paid royalties	16,214	37,299
Provision (benefit) for accounts receivable allowances	3,375	(1,485)
Deferred income taxes	(101,510)	(36,854)
Impairment of acquired in-process research and development	118,000	
Change in value of contingent consideration	(122,547)	16,697
Share-based compensation expense	168,641	134,540
Equity in losses of affiliated companies	966	746
Share-based employee benefit plan expense	14,567	11,072
Unrealized change in value of foreign currency forward contracts	(30,004)	12,060
Realized (gain) loss on marketable securities available for sale	(1,616)	(12,576)
Other, net	(7,643)	3,155
Change in current assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	(188,503)	(158,899)
Inventory	73,776	(6,372)
Other operating assets	48,113	9,412
Assets held for sale, net	2,647	
Accounts payable and other operating liabilities	90,344	89,560
Income tax payable	80,119	25,002
Deferred revenue	(2,756)	7,481
Net cash provided by operating activities	1,338,473	976,711
Cash flows from investing activities:		
Proceeds from sales of marketable securities available for sale	1,814,974	3,774,568
Purchases of marketable securities available for sale	(1,327,244)	(2,564,876)
Payments for acquisition of business, net of cash acquired	(180,000)	(337,608)
Proceeds from the sale of non-core assets, net	93,185	
Capital expenditures	(90,559)	(59,138)
Investment in affiliated companies	(2,949)	(1,759)
Purchases (refunds) of investment securities	6,597	(14,020)
Other investing activities	(2,000)	
Net cash provided by investing activities	312,004	797,167
Cash flows from financing activities:		
Payment for treasury shares	(1,574,415)	(105,436)

Proceeds from short-term borrowing		404,843		
Principal repayments on short-term borrowing		(135,750)		
Net proceeds from exercise of common stock options and warrants		92,258		56,033
Excess tax benefit from share-based compensation arrangements		15,734		9,081
Net cash (used in) financing activities		(1,197,330)		(40,322)
Effect of currency rate changes on cash and cash equivalents		(9,348)		(3,743)
Net increase in cash and cash equivalents		443,799		1,729,813
Cash and cash equivalents at beginning of period		1,351,128		1,102,172
Cash and cash equivalents at end of period	$	1,794,927	$	2,831,985

See accompanying Notes to Consolidated Financial Statements

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)

(Unaudited)

(Dollars in thousands)

	Nine-Month Periods Ended September 30,	
	2011	**2010**
Supplemental schedule of non-cash investing and financing activity:		
Contingent consideration issued in acquisition of Gloucester	$	$ 230,201
Change in net unrealized (gain) loss on marketable securities available for sale	$ (4,928)	$ (17,480)
Matured shares tendered in connection with stock option exercises	$ (16)	$ (8,236)
Supplemental disclosure of cash flow information:		
Interest paid	$ 2,026	$ 1,638
Income taxes paid	$ 79,159	$ 115,291

See accompanying Notes to Consolidated Financial Statements

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Nature of Business and Basis of Presentation

Celgene Corporation and its subsidiaries (collectively Celgene or the Company) is a global biopharmaceutical company primarily engaged in the discovery, development and commercialization of innovative therapies designed to treat cancer and immune-inflammatory diseases. The Company is dedicated to innovative research and development which is designed to bring new therapies to market and is involved in research in several scientific areas that may deliver proprietary next-generation therapies, targeting areas such as intracellular signaling pathways in cancer and immune cells, immunomodulation in cancer and autoimmunity and placental cell, including stem and progenitor cell, research.

The Company s primary commercial stage products include REVLIMID®, VIDAZA®, THALOMID® (inclusive of Thalidomide Celgene® and Thalidomide Pharmion®), ABRAXANE® and ISTODAX®. Additional sources of revenue include a licensing agreement with Novartis Pharma AG, or Novartis, which entitles the Company to royalties on FOCALIN XR® and the entire RITALIN® family of drugs, the sale of services through its Cellular Therapeutics subsidiary and other licensing agreements.

The consolidated financial statements include the accounts of Celgene Corporation and its subsidiaries. Certain entities obtained in the acquisition of Abraxis BioScience, Inc., or Abraxis, in October 2010 were determined to be non-core to the Company and a large portion were divested in April 2011 (see Note 3). Investments in limited partnerships and interests where the Company has an equity interest of 50% or less and does not otherwise have a controlling financial interest are accounted for by either the equity or cost method. The Company records net income or loss attributable to non-controlling interest in its Consolidated Statements of Income equal to the percentage of ownership interest retained in the respective operations by the non-controlling parties.

The preparation of these unaudited consolidated financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. The Company is subject to certain risks and uncertainties related to product development, regulatory approval, market acceptance, scope of patent and proprietary rights, competition, technological change and product liability.

Interim results may not be indicative of the results that may be expected for the full year. In the opinion of management, these unaudited consolidated financial statements include all normal and recurring adjustments considered necessary for a fair presentation of these interim unaudited consolidated financial statements.

2. Summary of Significant Accounting Policies

The Company s significant accounting policies are described in Note 1 of the Notes to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, or the 2010 Annual Report on Form 10-K.

New Accounting Pronouncements: In September 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment, or ASU 2011-08. The update simplifies how a company tests goodwill for impairment.

ASU 2011-08 allows a company the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity would no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount.

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of ASU 2011-08 is not expected to have a material impact on the Company as the Company has only one reporting unit.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220), or ASU 2011-05. ASU 2011-05 was issued to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance in ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 will be effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2011. The Company is currently evaluating the impact that the adoption of ASU 2011-05 will have on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820), or ASU 2011-04. ASU 2011-04 was issued to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and International Financial Reporting Standards, or IFRS. The guidance in ASU 2011-04 explains how to measure fair value, but does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. ASU 2011-04 will be effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2011. The Company is currently evaluating the impact that the adoption of ASU 2011-04 will have on its consolidated financial statements.

3. Acquisitions and Divestitures

Abraxis BioScience, Inc.

On October 15, 2010, or the Acquisition Date, the Company acquired all of the outstanding common stock of Abraxis in exchange for consideration valued at the Acquisition Date at approximately $3.205 billion, consisting of cash, stock and contingent value rights, or CVRs. The transaction, referred to as the Merger, resulted in Abraxis becoming a wholly owned subsidiary of the Company.

As discussed further under Contingent Value Rights below, a holder of a CVR is entitled to receive a *pro rata* portion of cash payments that the Company is obligated to pay to all holders of CVRs, which is determined by achievement of certain net sales and U.S. regulatory approval milestones. Potential cash payments to CVR holders range from no payment, if no regulatory milestones or net sales thresholds are met, to a maximum of $650.0 million in milestone payments plus payments based on annual net sales levels if all milestones are met at the earliest target dates and annual net sales exceed threshold amounts.

The Merger has been accounted for using the acquisition method of accounting which requires that most assets acquired and liabilities assumed be recognized at their fair values as of the Acquisition Date and requires the fair value of acquired in-process research and development, or IPR&D, to be classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. A preliminary purchase price allocation has been made and amounts for certain income tax attributes are subject to change pending the filing of Abraxis pre-acquisition tax returns. The Company does not expect any material adjustments.

No adjustments were made during the nine-month period ended September 30, 2011 to the amounts initially recorded for the assets acquired and liabilities assumed as of the Acquisition Date. The amounts recognized will be finalized as the information necessary to complete the analyses is obtained, but no later than one year from the Acquisition Date.

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Sale of Non-core Assets

The purchase of Abraxis included a number of assets that are not associated with nab® technology or ABRAXANE®. These assets, or non-core assets, consisted of a number of subsidiaries, tangible assets, equity investments, joint venture partnerships and assets that supported research and sales of products not directly related to the nab® technology or ABRAXANE®. At the time of acquisition, the Company committed to a plan to divest certain non-core assets and they were classified on the Consolidated Balance Sheets as of December 31, 2010 as assets held for sale and the associated liabilities were classified as liabilities of disposal group. In April 2011, the Company sold these non-core assets to various entities that are owned or controlled by Dr. Patrick Soon-Shiong, the former majority shareholder and executive chairman of Abraxis.

The Company received cash consideration of $110.0 million, 10% equity ownership in Active Biomaterials, LLC, which is an entity that was formed with certain of the non-core assets with revenue-producing potential, and a future royalty stream based on net sales of certain products of Active Biomaterials, LLC. The royalties, which commence in 2014 at the earliest and are not to exceed an annual amount of $128.0 million, will be calculated based on a range of between 10% and 12.5% of net sales of certain future products. Dr. Patrick Soon-Shiong holds an option to purchase the 10% equity ownership in Active Biomaterials, LLC from the Company for a price of $15.0 million at any time prior to April 2013. The Company recorded the equity ownership at its fair market value of $14.0 million based on the present value of the amount likely to be received upon exercise of the purchase option. The Company recorded the future royalty stream as an asset and assigned a value of $170.0 million based on its fair market value calculated as the present value of estimated future net cash flows. The sale of the non-core assets resulted in a gain of $2.9 million which was included in the Consolidated Statements of Income, in other income (expense), net. The Company s policy is to present gains and losses from sales of businesses as other income or expense.

Assets Held For Sale

The remaining balances in the assets held for sale and liabilities of disposal group line items on the Consolidated Balance Sheets at September 30, 2011 relate to two facilities that were acquired in the purchase of Abraxis. The Company intends to sell these assets as it rationalizes certain manufacturing facilities. No material gain or loss is expected to result from the sale.

Contingent Value Rights

In connection with the Merger on October 15, 2010, CVRs were issued under a Contingent Value Rights Agreement, or CVR Agreement, entered into between Celgene and American Stock Transfer & Trust Company, LLC, as trustee. The CVRs are registered for trading on the NASDAQ Global Select Market under the symbol CELGZ. The fair value of the CVRs and the liability of the Company related to payments under the CVR Agreement are subject to fluctuation based on trading prices for the publicly traded CVRs. Subsequent to the Acquisition Date, the Company has measured the contingent consideration represented by the CVRs at fair value with changes in fair value recognized in operating earnings.

Each holder of a CVR is entitled to receive a *pro rata* portion, based on the number of CVRs then outstanding, of each of the following contingent cash payments:

- *Milestone Payment #1.* $250.0 million upon U.S. Food and Drug Administration, or FDA, approval of ABRAXANE® for use in the treatment of non-small cell lung cancer, or NSCLC, if such approval permits the Company to market ABRAXANE® with FDA approval that includes a progression-free survival, or PFS, claim, but only if this milestone is achieved no later than the fifth anniversary of the Merger.

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- *Milestone Payment #2.* $400.0 million (if achieved no later than April 1, 2013) or $300.0 million (if achieved after April 1, 2013 and before the fifth anniversary of the Merger) upon FDA approval of ABRAXANE® for use in the treatment of pancreatic cancer, if such approval permits the Company to market ABRAXANE® with FDA approval that includes an overall survival claim.

- *Net Sales Payments.* For each full one-year period ending December 31 during the term of the CVR Agreement, which we refer to as a net sales measuring period (with the first net sales measuring period beginning January 1, 2011 and ending December 31, 2011):

- 2.5% of the net sales of ABRAXANE® and the Abraxis pipeline products that exceed $1.0 billion but are less than or equal to $2.0 billion for such period, plus

- an additional amount equal to 5% of the net sales of ABRAXANE® and the Abraxis pipeline products that exceed $2.0 billion but are less than or equal to $3.0 billion for such period, plus

- an additional amount equal to 10% of the net sales of ABRAXANE® and the Abraxis pipeline products that exceed $3.0 billion for such period.

No payments will be due under the CVR Agreement with respect to net sales of ABRAXANE® and the Abraxis pipeline products after December 31, 2025, which we refer to as the net sales payment termination date, unless net sales for the net sales measuring period ending on December 31, 2025 are equal to or greater than $1.0 billion, in which case the net sales payment termination date will be extended until the last day of the net sales measuring period subsequent to December 31, 2025 during which net sales of ABRAXANE® and the Abraxis pipeline products are less than $1.0 billion or, if earlier, December 31, 2030.

The final results for the ongoing ABRAXANE® Phase III study in NSCLC, or the NSCLC study, were presented at a major scientific congress in June 2010. These results showed that the primary endpoint of the study, response rate, was met and was statistically significant. An interim analysis for the secondary endpoint of PFS was announced in January 2011 and, although not statistically significant, did not show a negative trend against the comparator. On June 4, 2011, the Company announced that the final analysis for both PFS and Overall Survival, or OS, was completed during the second quarter of 2011 and the PFS remained consistent with the interim analysis. In addition, the final OS, similar to the final PFS analysis, did not show a negative trend against the comparator. The Special Protocol Assessment, or SPA, as agreed with the FDA, states that the NSCLC study must reach the primary endpoint of response rate, which has been met, as well as showing that the secondary endpoints of both PFS and OS are not negative, *i.e.* no detrimental effect on PFS or OS for the ABRAXANE® group of the NSCLC study. Accordingly, because the final PFS results were not statistically significant, this reduced the probability that a payment will be made for Milestone Payment #1 under the CVR Agreement that the Company entered into with the former shareholders of Abraxis. Milestone Payment #1 relates to FDA approval of ABRAXANE® for the treatment of NSCLC that permits the Company to market ABRAXANE® with FDA approval that includes a PFS claim, which the Company believes is now unlikely to be achieved based on the foregoing data. The market value

of the publicly traded CVRs, which represents the fair value of the Company s liability for all potential payments under the CVR Agreement, decreased from $212.0 million at December 31, 2010 to $75.3 million at September 30, 2011. The reduction in the fair value of the Company s liability was recognized as a gain of $136.7 million in acquisition-related (gains) charges and restructuring, net on the Consolidated Statements of Income for the nine-month period ended September 30, 2011, including a gain of $13.4 million for the three-month period ended September 30, 2011.

In the first quarter of 2011, the Company evaluated the value assigned to the IPR&D from Abraxis and determined that, based on a lower level of probable sales than that estimated at the time of the Merger for sales of ABRAXANE® for NSCLC with FDA approval that includes a PFS claim, the fair value of the

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IPR&D acquired from Abraxis has fallen below the $1.290 billion recorded at the time of acquisition. An impairment charge included in research and development on the accompanying Consolidated Statements of Income in the amount of $118.0 million was recorded in the three-month period ended March 31, 2011 to reduce the value of the IPR&D asset acquired from Abraxis to its revised current fair value of $1.172 billion at September 30, 2011.

Gloucester Pharmaceuticals, Inc.

On January 15, 2010, the Company acquired all of the outstanding common stock and stock options of Gloucester Pharmaceuticals, Inc., or Gloucester. The assets acquired and liabilities assumed of Gloucester were recorded as of the acquisition date, at their respective fair values, and consolidated with those of the Company. Gloucester s results of operations are included in the Company s consolidated financial statements from the date of acquisition.

The Company paid $338.9 million in cash before milestone payments with potential additional future payments of up to $300.0 million in contingent regulatory milestone payments. As part of the consideration for the Gloucester acquisition, the Company is contractually obligated to pay certain consideration resulting from the outcome of future events. The Company updates its assumptions each reporting period based on new developments and records such amounts at fair value until such consideration is satisfied.

In June 2011, the FDA granted accelerated approval of the Supplemental New Drug Application for ISTODAX® for the treatment of peripheral T-cell lymphoma, or PTCL, in patients who have received at least one prior therapy. This FDA approval was the triggering event for the payment of one of the two contingent regulatory milestone payments associated with the Gloucester acquisition. The Company made a payment of $180.0 million to the former shareholders of Gloucester in July 2011 in satisfaction of this milestone payment requirement. The single remaining contingent milestone payment is for a $120.0 million cash payment upon the marketing approval for the European Union PTCL.

Subsequent to the acquisition date, the Company has measured the contingent consideration arrangement at fair value for each period with changes in fair value recognized in operating earnings. Changes in fair values reflect new information about the IPR&D assets and the passage of time. In the absence of new information, changes in fair value reflect only the passage of time as development work towards the achievement of the milestones progresses, and will be accrued based on an accretion schedule. At September 30, 2011, the balance of the contingent consideration, which reflects the fair value of the single remaining contingent milestone payment, was $87.1 million, and is included in other non-current liabilities.

4. Restructuring

The Company has incurred costs from restructuring activities related to the October 15, 2010 acquisition of Abraxis. Restructuring costs include employee termination costs, contract termination fees and facility closing costs. Employee termination costs are generally recorded when the actions are probable and estimable and include accrued severance benefits and health insurance continuation, many of which may be paid out during periods after termination of employment.

The following tables summarize the restructuring expenses and changes in the restructuring liability related to the Abraxis acquisition during the three- and nine-month periods ended September 30, 2011:

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2011	2010	2011	2010
Employee termination benefits	$ 86	$	$ 2,312	$
Contract termination fees			1,304	
Facility closing costs	113		1,858	
Total restructuring expense	$ 199	$	$ 5,474	$

	Balance December 31, 2010	Expense Recognized	Payments	Balance September 30, 2011	Cumulative Payments
Employee termination benefits	$ 14,881	$ 2,312	$ 12,047	$ 5,146	$ 13,280
Contract termination fees		1,304	1,304		1,304
Facility closing costs		1,858	1,066	792	1,066
Total restructuring costs	$ 14,881	$ 5,474	$ 14,417	$ 5,938	$ 15,650

The Company does not expect to incur material additional restructuring expenses related to the acquisition of Abraxis. Future cash payments related to the restructuring activity are estimated to be approximately $1.3 million in 2011, $4.3 million in 2012 and $0.3 million in 2013.

5. Earnings Per Share

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2011	2010	2011	2010
Net income attributable to Celgene	$ 372,984	$ 281,151	$ 907,972	$ 670,945
Weighted-average shares (in thousands):				
Basic	452,019	459,653	460,161	459,957
Effect of dilutive securities:				
Options, restricted stock units, warrants and other incentives	7,511	6,679	6,891	7,180
Diluted	459,530	466,332	467,052	467,137
Net income per share:				
Basic	$ 0.83	$ 0.61	$ 1.97	$ 1.46
Diluted	$ 0.81	$ 0.60	$ 1.94	$ 1.44

The total number of potential shares of common stock excluded from the diluted earnings per share computation because their inclusion would have been anti-dilutive was 21,682,141 and 24,472,208 shares for the three-month periods ended September 30, 2011 and 2010, respectively. The total number of potential common shares excluded for the nine-month periods ended September 30, 2011 and 2010 was 26,846,063 and 23,624,432, respectively.

The Company s Board of Directors has approved an open-ended common share repurchase program up to an aggregate of $4.0 billion of the Company s common stock. As of September 30, 2011, an aggregate of 35,676,097 shares of common stock were repurchased under the program, including 15,549,400 shares of common stock repurchased during the three-month period ended September 30, 2011.

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Comprehensive Income

A summary of comprehensive income, net of tax, is summarized as follows:

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2011	2010	2011	2010
Net income	$ 372,984	$ 281,151	$ 907,972	$ 670,945
Other comprehensive income:				
Marketable securities:				
Net unrealized gains on marketable securities available for sale, net of tax	124	4,682	4,928	17,681
Reclassification adjustment for (gains) and losses included in net income	(3,072)	(6,560)	(1,783)	(12,432)
Total other comprehensive (gains) losses related to marketable securities available for sale, net of tax	(2,948)	(1,878)	3,145	5,249
Net unrealized gains (losses) related to cash flow hedges, net of tax	52,789	(118,501)	(1,356)	1,663
Currency translation adjustments	(12,713)	11,709	6,108	32,769
Total other comprehensive income (loss) items	37,128	(108,670)	7,897	39,681
Comprehensive income	410,112	172,481	915,869	710,626

7. Financial Instruments and Fair Value Measurement

The table below presents information about assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2011 and the valuation techniques the Company utilized to determine such fair value. Fair values determined based on Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. The Company s Level 1 assets consist of marketable equity securities. Fair values determined based on Level 2 inputs utilize observable quoted prices for similar assets and liabilities in active markets and observable quoted prices for identical or similar assets in markets that are not very active. The Company s Level 2 assets consist primarily of U.S. Treasury securities, U.S. government-sponsored agency securities, U.S. government-sponsored agency mortgage-backed securities, non-U.S. government, agency and Supranational securities and global corporate debt securities. Fair values determined based on Level 3 inputs utilize unobservable inputs and include valuations of assets or liabilities for which there is little, if any, market activity. The Company s Level 3 assets consist of warrants for the purchase of equity securities in non-publicly traded companies. The Company s Level 1 liability relates to the Company s publicly traded CVRs. The Level 2 liability relates to forward currency contracts and the Level 3 liability consists of contingent consideration related to undeveloped product rights resulting from the Gloucester acquisition.

12

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Balance at September 30, 2011	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$	$	$	$
Available-for-sale securities	784,160	424	783,736	
Forward currency contracts	9,824		9,824	
Warrants	2,077			2,077
Total assets	$ 796,061	$ 424	$ 793,560	$ 2,077
Liabilities:				
Acquisition related contingent consideration	$ (162,390)	$ (75,297)	$	$ (87,093)

	Balance at December 31, 2010	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 5,000	$	$ 5,000	$
Available-for-sale securities	1,250,173	4,268	1,242,402	3,503
Warrants	1,757			1,757
Warrants classified as held for sale	1,904			1,904
Securities classified as held for sale	19,863	3,655		16,208
Total assets	$ 1,278,697	$ 7,923	$ 1,247,402	$ 23,372
Liabilities:				
Forward currency contracts	$ (18,436)	$	$ (18,436)	$
Acquisition related contingent consideration	(464,937)	(212,042)		(252,895)
Total liabilities	$ (483,373)	$ (212,042)	$ (18,436)	$ (252,895)

There were no security transfers between Levels 1 and 2 in the nine-month period ended September 30, 2011. The following tables represent a roll-forward of the fair value of Level 3 instruments (significant unobservable inputs):

	Nine-Month Periods Ended September 30, 2011	2010
Assets:		
Balance at beginning of period	$ 23,372	$ 1,598

Amounts acquired or issued				
Net realized and unrealized gains (losses)		1,182		(10)
Settlements		(22,477)		169
Transfers in and/or out of Level 3				
Balance at end of period	$	2,077	$	1,757

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Settlements of $22.5 million during the nine-month period ended September 30, 2011 consisted of Level 3 instruments that were considered non-core assets acquired in the acquisition of Abraxis and were included in the sale of the non-core assets in April 2011.

	Nine-Month Periods Ended September 30,	
	2011	2010
Liabilities:		
Balance at beginning of period	$ (252,895)	$
Amounts acquired or issued		(230,201)
Net accretion	(14,198)	(16,697)
Settlements		
Transfers in and/or out of Level 3	180,000	
Balance at end of period	$ (87,093)	$ (246,898)

Transfers out of Level 3 during the nine-month period ended September 30, 2011 consisted of $180.0 million related to a milestone that was part of the contingent consideration in the Gloucester acquisition. The milestone was achieved and valued based on its contractually defined amount. The milestone was paid in July 2011.

8. Derivative Instruments and Hedging Activities

Foreign Currency Forward Contracts: The Company uses foreign currency forward contracts to hedge specific forecasted transactions denominated in foreign currencies and to reduce exposures to foreign currency fluctuations of certain assets and liabilities denominated in foreign currencies.

The Company enters into foreign currency forward contracts to protect against changes in anticipated foreign currency cash flows resulting from changes in foreign currency exchange rates, primarily associated with non-functional currency denominated revenues and expenses of foreign subsidiaries. The foreign currency forward hedging contracts outstanding at September 30, 2011 and December 31, 2010 had settlement dates within 36 months. These foreign currency forward contracts are designated as cash flow hedges and, to the extent effective, any unrealized gains or losses on them are reported in other comprehensive income (loss), or OCI, and reclassified to operations in the same periods during which the underlying hedged transactions affect operations. Any ineffectiveness on these foreign currency forward contracts is reported on the Consolidated Statements of Income in other income (expense), net. Foreign currency forward contracts entered into to hedge forecasted revenue and expenses were as follows at September 30, 2011 and December 31, 2010:

	Notional Amount	
Foreign Currency	September 30, 2011	December 31, 2010

Australian Dollar	$	14,280	$	51,809
British Pound				58,440
Canadian Dollar		93,768		133,128
Euro		794,766		675,438
Japanese Yen		647,960		632,962
Swiss Franc		56,376		77,669
Others				2,835
Total	$	1,607,150	$	1,632,281

The Company considers the impact of its own and the counterparties credit risk on the fair value of the contracts as well as the ability of each party to execute its obligations under the contract on an ongoing basis.

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2011, credit risk did not materially change the fair value of the Company s foreign currency forward contracts.

The Company also enters into foreign currency forward contracts to reduce exposures to foreign currency fluctuations of certain recognized assets and liabilities denominated in foreign currencies. These foreign currency forward contracts have not been designated as hedges and, accordingly, any changes in their fair value are recognized on the Consolidated Statements of Income in other income (expense), net in the current period. The aggregate notional amount of the foreign currency forward non-designated hedging contracts outstanding at September 30, 2011 and December 31, 2010 were $1,023.2 million and $848.6 million, respectively.

From time to time the Company hedges the fair value of certain debt obligations through the use of interest rate swap contracts. The interest rate swap contracts are designated hedges of the fair value changes in the notes attributable to changes in interest rates. Since the specific terms and notional amount of the swap match those of the debt being hedged, it is assumed to be a highly effective hedge and all changes in fair value of the swaps are recorded on the Consolidated Balance Sheets with no net impact recorded in the Consolidated Statements of Income. Additionally, any net interest payments made or received are recognized as interest expense. At June 30, 2011, the Company was a party to three pay-floating, receive-fixed interest rate swap contracts designated as fair value hedges of fixed-rate notes in which the notional amounts matched the amount of the hedged fixed-rate notes. In August 2011, the Company settled the swap contracts resulting in the receipt of $34.3 million. The proceeds from the swap settlement are being accounted for as a reduction of current and future interest expense. There were no interest rate swap contracts outstanding at September 30, 2011.

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the fair value and presentation in the consolidated balance sheets for derivative instruments as of September 30, 2011 and December 31, 2010:

	September 30, 2011					
	Asset Derivatives			Liability Derivatives		
Instrument	Balance Sheet Location		Fair Value	Balance Sheet Location		Fair Value
Foreign currency forward contracts designated as hedging instruments*	Other current assets	$	22,556	Other current assets	$	1,448
	Other current liabilities		23,764	Other current liabilities		34,665
	Other non-current assets		3,231	Other non-current assets		213
	Other non-current liabilities		6,533	Other non-current liabilities		34,722
Foreign currency forward contracts not designated as hedging instruments*	Other current assets		34,870	Other current assets		3,877
	Other current liabilities		2,499	Other current liabilities		8,813
	Other non-current assets		1,450	Other non-current assets		
	Other non-current liabilities			Other non-current liabilities		1,341
Total		$	94,903		$	85,079

	December 31, 2010					
	Asset Derivatives			Liability Derivatives		
Instrument	Balance Sheet Location		Fair Value	Balance Sheet Location		Fair Value
Foreign currency forward contracts designated as hedging instruments*	Other current assets	$	23,536	Other current assets	$	1,177
	Other current liabilities		16,656	Other current liabilities		21,645
	Other non-current liabilities			Other non-current liabilities		33,824
Foreign currency forward contracts not designated as hedging instruments*	Other current assets		8,127	Other current assets		1,976
	Other current liabilities		2,444	Other current liabilities		10,577
Total		$	50,763		$	69,199

* Derivative instruments in this category are subject to master netting arrangements and are presented on a net basis in the Consolidated Balance Sheets in accordance with ASC 210-20.

16

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables summarize the effect of derivative instruments designated as hedging instruments on the Consolidated Statements of Income for the three- and nine-month periods ended September 30, 2011 and 2010, respectively:

	For the Three-Month Period Ended September 30, 2011							
Instrument	Amount of Gain/(Loss) Recognized in OCI on Derivative *(Effective Portion)*		Location of Gain/(Loss) Reclassified from Accumulated OCI into Income *(Effective Portion)*	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income *(Effective Portion)*		Location of Gain/(Loss) Recognized in Income on Derivative *(Ineffective Portion and Amount Excluded From Effectiveness Testing)*	Amount of Gain/(Loss) Recognized in Income on Derivative *(Ineffective Portion and Amount Excluded From Effectiveness Testing)*	
Foreign currency forward contracts	$	47,987(1)	Net product sales	$	(4,802)	Other income, net	$	(6,256)(2)
Interest rate swaps			Interest expense	$	1,724			

(1) Gains of $10,675 are expected to be reclassified from Accumulated OCI into operations in the next 12 months.

(2) The amount of net loss recognized in income represents $2,125 in gains related to the ineffective portion of the hedging relationships and $8,381 of losses related to amounts excluded from the assessment of hedge effectiveness.

	For the Three-Month Period Ended September 30, 2010							
Instrument	Amount of Gain/(Loss) Recognized in OCI on Derivative *(Effective Portion)*		Location of Gain/(Loss) Reclassified from Accumulated OCI into Income *(Effective Portion)*	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income *(Effective Portion)*		Location of Gain/(Loss) Recognized in Income on Derivative *(Ineffective Portion and Amount Excluded From Effectiveness Testing)*	Amount of Gain/(Loss) Recognized in Income on Derivative *(Ineffective Portion and Amount Excluded From Effectiveness Testing)*	
Foreign currency	$	(97,916)	Net product sales	$	20,585	Other income, net	$	5,975(1)

forward contracts			
	Research and development	$	(1)

(1) The amount of net gains recognized in income represents $394 in gains related to the ineffective portion of the hedging relationships, and $5,581 of gains related to amounts excluded from the assessment of hedge effectiveness.

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Nine-Month Period Ended September 30, 2011				
Instrument	Amount of Gain/(Loss) Recognized in OCI on Derivative *(Effective Portion)*	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income *(Effective Portion)*	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income *(Effective Portion)*	Location of Gain/(Loss) Recognized in Income on Derivative *(Ineffective Portion and Amount Excluded From Effectiveness Testing)*	Amount of Gain/(Loss) Recognized in Income on Derivative *(Ineffective Portion and Amount Excluded From Effectiveness Testing)*
Foreign currency forward contracts	$ (9,190)(1)	Net product sales	$ (7,833)	Other income, net	$ (6,021)(2)
Interest rate swaps		Interest expense	$ 5,460		

(1) Gains of $10,675 are expected to be reclassified from Accumulated OCI into operations in the next 12 months.

(2) The amount of net losses recognized in income represents $566 in losses related to the ineffective portion of the hedging relationships and $5,455 of losses related to amounts excluded from the assessment of hedge effectiveness.

	For the Nine-Month Period Ended September 30, 2010				
Instrument	Amount of Gain/(Loss) Recognized in OCI on Derivative *(Effective Portion)*	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income *(Effective Portion)*	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income *(Effective Portion)*	Location of Gain/(Loss) Recognized in Income on Derivative *(Amount Excluded From Effectiveness Testing)*	Amount of Gain/(Loss) Recognized in Income on Derivative *(Amount Excluded From Effectiveness Testing)*
Foreign currency forward contracts	$ 43,377	Net product sales	$ 41,718	Other income, net	$ 3,019(1)
		Research and development	$ (4)		

(1) The amount of net gain recognized in income represents $415 in losses related to the ineffective portion of the hedging relationships and $3,434 of gains related to amounts excluded from the assessment of hedge effectiveness.

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the effect of derivative instruments not designated as hedging instruments on the Consolidated Statements of Income for the three- and nine-month periods ended September 30, 2011 and 2010:

Instrument	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative			
		Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
		2011	2010	2011	2010
Foreign currency forward contracts	Other income, net	$ (46,586)	$ (49,661)	$ (11,666)	$ (4,177)

The impact of gains and losses on derivatives not designated as hedging instruments are generally offset by net foreign exchange gains and losses, which are also included on the Consolidated Statements of Income in other income (expense), net for all periods presented.

9. Cash, Cash Equivalents and Marketable Securities Available-for-Sale

Money market funds of $0.603 billion and $1.050 billion at September 30, 2011 and December 31, 2010, respectively, were recorded at cost, which approximates fair value and are included in cash and cash equivalents.

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and estimated fair value of available-for-sale securities by major security type and class of security at September 30, 2011 and December 31, 2010 were as follows:

September 20, 2011	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
U.S. Treasury securities	$ 222,678	$ 401	$ (236)	$ 222,843
U.S. government-sponsored agency securities	137,312	575	(79)	137,808
U.S. government-sponsored agency MBS	303,028	2,343	(2,056)	303,315
Non-U.S. government, agency and Supranational securities	11,182	198		11,380
Corporate debt - global	107,470	1,151	(231)	108,390
Marketable equity securities	407	17		424
Total available-for-sale marketable securities	$ 782,077	$ 4,685	$ (2,602)	$ 784,160

December 31, 2010	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
U.S. Treasury securities	$ 431,913	$ 921	$ (378)	$ 432,456
U.S. government-sponsored agency securities	359,060	1,055	(267)	359,848
U.S. government-sponsored agency MBS	250,618	1,230	(1,332)	250,516
Non-U.S. government, agency and Supranational securities	35,382	182	(18)	35,546
Corporate debt - global	167,876	1,002	(1,340)	167,538
Marketable equity securities	4,050	368	(149)	4,269
Total available-for-sale marketable securities	$ 1,248,899	$ 4,758	$ (3,484)	$ 1,250,173

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

U.S. government-sponsored agency securities include general unsecured obligations either issued directly by or guaranteed by U.S. Government Sponsored Enterprises. U.S. government-sponsored agency mortgage-backed securities, or MBS, include mortgage-backed securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. Non-U.S. government, agency and Supranational securities consist of direct obligations of highly rated governments of nations other than the United States and obligations of sponsored agencies and other entities that are guaranteed or supported by highly rated governments of nations other then the United States. Corporate debt global includes obligations issued by investment-grade corporations, including some issues that have been guaranteed by governments and government agencies. Net unrealized gains in the marketable debt securities primarily reflect the impact of decreased interest rates at September 30, 2011 and December 31, 2010.

Duration periods of available-for-sale debt securities at September 30, 2011 were as follows:

	Amortized Cost	Fair Value
Duration of one year or less	$ 171,765	$ 171,428
Duration of one through three years	514,872	516,676
Duration of three through five years	95,033	95,632
Total	$ 781,670	$ 783,736

10. Inventory

A summary of inventories by major category at September 30, 2011 and December 31, 2010 follows:

	September 30, 2011	December 31, 2010
Raw materials	$ 51,609	$ 37,458
Work in process	100,429	95,822
Finished goods	35,487	126,850
Total	$ 187,525	$ 260,130

The finished goods inventory balance at December 31, 2010 includes the unamortized acquisition accounting step-up to fair value resulting from the acquisition of Abraxis in the amount of $90.3 million which has been fully amortized as of September 30, 2011.

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Investment in Affiliated Companies

As of September 30, 2011, the Company maintained three equity method investments, including two limited partnership investment funds. Additional equity method investment contributions, net of investment returns totaled $2.9 million during the nine-month period ended September 30, 2011. A summary of the Company s equity investments in affiliated companies follows:

Investment in Affiliated Companies	September 2011	December 31, 2010
Investment in affiliated companies (1)	$ 26,358	$ 21,419
Excess of investment over share of equity (2)	1,112	1,654
Investment in affiliated companies	$ 27,470	$ 23,073

Equity in Losses of Affiliated Companies	Three-Month Periods Ended September 30, 2011	2010	Nine-Month Periods Ended September 30, 2011	2010
Affiliated companies losses (1) (3)	$ 1,661	$ 1,384	$ 966	$ 746

(1) The Company records its interest and share of losses based on its ownership percentage.

(2) Consists of goodwill.

(3) Affiliated companies losses for the nine-month period of 2011 includes certain losses related to non-core former Abraxis equity method investments which were divested in the second quarter of 2011.

12. Intangible Assets and Goodwill

Intangible Assets: The Company s intangible assets consist of developed product rights from the Pharmion, Gloucester and Abraxis acquisitions, IPR&D product rights from the Gloucester and Abraxis acquisitions, contract-based licenses, technology and other. The amortization periods related to non-IPR&D intangible assets range from one to 17 years. The following summary of intangible assets by

category includes intangibles currently being amortized and intangibles not yet subject to amortization:

September 30, 2011	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net	Weighted Average Life (Years)
Amortizable intangible assets:				
Acquired developed product rights	$ 2,186,000	$ (592,844)	$ 1,593,156	11.9
Licenses	64,250	(5,149)	59,101	16.8
Technology and other	43,148	(9,393)	33,755	8.9
	2,293,398	(607,386)	1,686,012	11.9
Nonamortized intangible assets:				
Acquired IPR&D product rights	1,234,000		1,234,000	
Total intangible assets	$ 3,527,398	$ (607,386)	$ 2,920,012	

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2010	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net	Weighted Average Life (Years)
Amortizable intangible assets:				
Acquired developed product rights	$ 1,897,000	$ (384,891)	$ 1,512,109	12.3
Licenses	64,250	(2,271)	61,979	16.8
Technology and other	40,601	(5,191)	35,410	8.8
	2,001,851	(392,353)	1,609,498	12.4
Nonamortized intangible assets:				
Acquired IPR&D product rights	1,639,000		1,639,000	
Total intangible assets	$ 3,640,851	$ (392,353)	$ 3,248,498	

In June 2011, ISTODAX® was approved by the FDA for the treatment of PTCL in patients who have received at least one prior therapy. Accordingly, the related $287.0 million intangible asset obtained from the Gloucester acquisition was reclassified from an acquired IPR&D intangible to an acquired developed product rights intangible and amortization commenced with an 8.8 year expected useful life. The $113.5 million decrease in gross carrying value of intangible assets at September 30, 2011 compared to December 31, 2010 was primarily due to a $118.0 million impairment charge related to a change in the probability of obtaining PFS labeling for the treatment of NSCLC with ABRAXANE® in the United States, which was partly offset by the addition of two intangible assets with a combined value of approximately $4.5 million.

Amortization expense was $75.3 million and $46.8 million for the three-month periods ended September 30, 2011 and 2010, respectively. Amortization expense in 2011 included $22.2 million from the amortization of intangible assets obtained in the October 2010 Abraxis acquisition. Amortization expense for the nine-month periods ended September 30, 2011 and 2010 was $214.9 million and $136.0 million, respectively. Amortization expense for the nine-month period ended September 30, 2011 included $67.0 million from the amortization of intangible assets obtained in the Abraxis acquisition. Assuming no changes in the gross carrying amount of intangible assets, the amortization of intangible assets for the next five years is estimated to be approximately $289.2 million for 2011, $139.9 million for 2012, $138.2 million for 2013, $134.1 million for 2014 and $129.9 million for 2015.

Goodwill: At September 30, 2011, the Company s goodwill related to the October 2010 acquisition of Abraxis, the January 2010 acquisition of Gloucester, the March 2008 acquisition of Pharmion and the October 2004 acquisition of Penn T Limited.

The change in carrying value of goodwill is summarized as follows:

Balance at December 31, 2010	$ 1,896,344
Tax benefit on the exercise of Pharmion converted stock options	(61)

Balance at September 30, 2011	$	1,896,283

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Debt

Senior Notes: Summarized below are the carrying values of the Company s senior notes at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
2.450% senior notes due 2015	$ 528,951	$ 499,301
3.950% senior notes due 2020	498,827	498,749
5.700% senior notes due 2040	249,538	249,534
Total long-term debt	$ 1,277,316	$ 1,247,584

On October 7, 2010, the Company issued a total of $1.25 billion principal amount of senior notes consisting of $500.0 million aggregate principal amount of 2.45% Senior Notes due 2015 (the 2015 notes), $500.0 million aggregate principal amount of 3.95% Senior Notes due 2020 (the 2020 notes) and $250.0 million aggregate principal amount of 5.7% Senior Notes due 2040 (the 2040 notes and, together with the 2015 notes and the 2020 notes, referred to herein as the notes). The notes were issued at 99.854%, 99.745% and 99.813% of par, respectively, and the discount is being amortized as additional interest expense over the period from issuance through maturity. Offering costs of approximately $10.5 million have been recorded as debt issuance costs on the Company s Consolidated Balance Sheets and are being amortized as additional interest expense using the effective interest rate method over the period from issuance through maturity. Interest on the notes is payable semi-annually in arrears on April 15 and October 15 each year beginning April 15, 2011 and the principal on each note is due in full at their respective maturity dates. The notes may be redeemed at the option of the Company, in whole or in part, at any time at a redemption price defined in a make-whole clause equaling accrued and unpaid interest plus the greater of 100% of the principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments of interest and principal. If a change of control of the Company occurs accompanied by a downgrade of the debt to below investment grade, the Company will be required to offer to repurchase the notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest. The Company is subject to covenants which limit the ability of the Company to pledge properties as security under borrowing arrangements and limit the ability of the Company to perform sale and leaseback transactions involving the property of the Company. At September 30, 2011, the fair value of the Company s Senior Notes outstanding was $1.316 billion.

The Company entered into interest rate swap contracts in February and March 2011 to convert a portion of its interest rate exposure from fixed rate to floating rate to more closely align interest expense with interest income received on its cash equivalent and investment balances. In August 2011, the Company settled the swap contracts resulting in the receipt of $34.3 million. The proceeds from the swap settlement are being accounted for as a reduction of current and future interest expense associated with the Company s $500.0 million, 2.45% fixed-rate notes due in 2015. There were no interest rate swap contracts outstanding at September 30, 2011.

Commercial Paper: In September 2011, the Company entered into a commercial paper program, or the Program, under which the Company issues unsecured commercial paper notes, or Commercial Paper, on a private placement basis up to a maximum aggregate amount outstanding at any time of $1.0 billion, the proceeds of which will be used for general corporate purposes. The maturities of the Commercial Paper may vary, but may not exceed 270 days from the date of issue. The Commercial Paper is sold under customary terms to a dealer or in the commercial paper market and is issued at a discount from par or, alternatively, is sold at par and bears varying interest rates on a fixed or floating basis.

Borrowings under the Program are accounted for as short-term borrowings. As of September 30, 2011, the carrying value of Commercial Paper

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

was $269.1 million and approximated its fair value. The effective interest rate on the outstanding Commercial Paper balance at September 30, 2011 was 0.4%.

Senior Unsecured Credit Facility: In September 2011, the Company, entered into a senior unsecured revolving credit facility, or the Credit Facility, providing for revolving credit to the Company in the aggregate amount of $1.0 billion. Subject to certain conditions, the Company has the right to increase the amount of the Credit Facility (but in no event more than once per annum) up to a maximum aggregate amount of $1.250 billion.

The Credit Facility has a five-year term and amounts may be borrowed in U.S. dollars for working capital, capital expenditures and other corporate purposes. The Credit Facility serves as backup liquidity for the Company s Commercial Paper borrowings. Costs of $3.5 million associated with securing the Credit Facility have been recorded as other non-current assets on the balance sheet and are being amortized to income over the five-year term of the Credit Facility. As of September 30, 2011 there was no outstanding borrowing against the Credit Facility.

Borrowings under the Credit Facility will bear interest at a rate per annum equal to (i) the Base Rate, a fluctuating rate equal to the Applicable Margin plus the highest of (x) Citibank, N.A. s Base Rate, (y) the Federal Funds Rate plus 0.50% and (z) one-month LIBOR plus 1.00% or (ii) the Eurodollar Rate, a periodic fixed rate equal to LIBOR plus the Applicable Margin. The Applicable Margin is determined based on a pricing grid and is dependent on the Company s public debt ratings.

The Credit Facility contains affirmative and negative covenants including certain customary financial covenants. The Company was in compliance with all financial debt covenants as of September 30, 2011.

14. Share-Based Compensation

The following table summarizes the components of share-based compensation expense in the Consolidated Statements of Income for the three- and nine-month periods ended September 30, 2011 and 2010:

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2011	2010	2011	2010
Cost of good sold	$ 2,627	$ 1,788	$ 7,054	$ 4,909
Research and development	24,527	21,220	79,998	60,373

Selling, general and administrative	27,198	24,160	75,906	66,276
Total share-based compensation expense	54,352	47,168	162,958	131,558
Tax benefit related to share-based compensation expense	13,728	10,740	41,598	29,908
Reduction in income	$ 40,624	$ 36,428	$ 121,360	$ 101,650

Share-based compensation cost included in inventory was $2.3 million and $2.4 million at September 30, 2011 and December 31, 2010, respectively.

Stock Options: The weighted-average grant date fair value of the stock options granted during the three-month periods ended September 30, 2011 and 2010 was $15.46 per share and $18.16 per share, respectively. The weighted-average grant date fair value of the stock options issued during the nine-month periods ended September 30, 2011 and 2010 was $16.13 per share and $18.91 per share, respectively. There have been no significant changes to the assumptions used to estimate the fair value of options granted during the nine-month

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

period ended September 30, 2011 compared to those granted in 2010 disclosed in Note 15 to the Consolidated Financial Statements included in the Company s 2010 Annual Report on Form 10-K.

The following table summarizes all stock option activity for the nine-month period ended September 30, 2011:

	Options	Weighted Average Exercise Price Per Option	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at December 31, 2010	41,137,686	$ 48.56	6.7	$ 501,663
Changes during the Year:				
Granted	7,459,292			
Exercised	(2,905,809)			
Forfeited	(1,069,868)			
Expired	(376,639)			
Outstanding at September 30, 2011	44,244,662	$ 50.87	6.6	$ 527,518
Vested at September 30, 2011 or expected to vest in the future	43,309,232	$ 50.75	6.6	$ 522,236
Vested at September 30, 2011	22,887,020	$ 45.80	4.9	$ 398,652

The total fair value of shares vested during the nine-month periods ended September 30, 2011 and 2010 was $116.2 million and $100.2 million, respectively. The total intrinsic value of stock options exercised during the nine-month periods ended September 30, 2011 and 2010 was $79.9 million and $75.7 million, respectively. The Company primarily utilizes newly issued shares to satisfy the exercise of stock options.

As of September 30, 2011, there was $271.6 million of total unrecognized compensation cost related to stock options granted under the plans. That cost will be recognized over an expected remaining weighted-average period of 2.3 years.

Restricted Stock Units: At the option of employee participants, equity awards may be divided between stock options and restricted stock units, or RSUs. The employee has three choices: (1) 100% stock options; (2) a mix of stock options and RSUs based on a two-thirds and one-third mix, using a three-to-one ratio of stock options to RSUs in calculating the number of RSUs to be granted; or (3) a mix of stock options and RSUs based on a one-half mix, using a three-to-one ratio of stock options to RSUs in calculating the number of RSUs to be granted. The fair value of RSUs is determined based on the closing price of the Company s common stock on the grant dates. Information regarding the Company s RSUs for the nine-month period ended September 30, 2011 is as follows:

Nonvested RSUs	Share Equivalent		Weighted Average Grant Date Fair Value
Nonvested at December 31, 2010	1,510,384	$	54.84
Changes during the period:			
Granted	1,351,726		58.50
Vested	(9,072)		49.97
Forfeited	(64,440)		55.03
Non-vested at September 30, 2011	2,788,598	$	56.63

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2011, there was $97.9 million of total unrecognized compensation cost related to non-vested awards of RSUs. That cost is expected to be recognized over a weighted-average period of 1.9 years. The Company recognizes compensation cost on a straight-line basis over the requisite service period for the entire award, as adjusted for expected forfeitures. The Company primarily utilizes newly issued shares to satisfy the vesting of RSUs.

Performance-Based Restricted Stock Units: The Company s performance-based restricted stock units vest contingent upon the achievement of pre-determined performance-based milestones typically related to product development. If these performance-based milestones are not met, the RSUs will not vest, in which case, any compensation expense the Company has recognized to date associated with awards that will not vest will be reversed. The weighted-average grant date fair value of performance-based restricted stock units is based on the quoted market price of the Company s common stock on the date of grant. The following table summarizes the Company s performance-based restricted stock unit activity for the nine-month period ended September 30, 2011:

Nonvested Performance-Based RSUs	Share Equivalent	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2010		$
Changes during the period:		
Granted	28,500	60.88
Vested		
Forfeited		
Non-vested at September 30, 2011	28,500	$ 60.88

As of September 30, 2011, there was $1.5 million of total unrecognized compensation cost related to non-vested awards of performance-based RSUs that is expected to be recognized over a period of 2.3 years.

15. Income Taxes

The Company regularly evaluates the likelihood of the realization of its deferred tax assets and reduces the carrying amount of those deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized. The Company considers many factors when assessing the likelihood of future realization of its deferred tax assets, including recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carryforward periods available to it for tax reporting purposes and other relevant factors. Significant judgment is required in making this assessment.

The Company s U.S. federal income tax returns have been audited by the U.S. Internal Revenue Service, or the IRS, through the year ended December 31, 2005. Tax returns for the years ended December 31, 2006, 2007 and 2008 are currently under examination by the IRS and scheduled to be completed within the next 12 months. The Company is also subject to audits by various state and foreign taxing authorities, including, but not limited to, most U.S. states and major European and Asian countries where the Company has operations.

The Company regularly reevaluates its tax positions and the associated interest and penalties, if applicable, resulting from audits of federal, state and foreign income tax filings, as well as changes in tax law (including regulations, administrative pronouncements, judicial precedents, etc.) that would reduce the technical merits of the position to below more likely than not. The Company believes that its accruals for tax liabilities are adequate for all open years. Many factors are considered in making these evaluations, including past history, recent interpretations of tax law and the specifics of each matter. Because tax regulations are subject to

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

interpretation and tax litigation is inherently uncertain, these evaluations can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. The Company applies a variety of methodologies in making these estimates and assumptions, which include studies performed by independent economists, advice from industry and subject experts, evaluation of public actions taken by the IRS and other taxing authorities, as well as the Company s industry experience. These evaluations are based on estimates and assumptions that have been deemed reasonable by management. However, if management s estimates are not representative of actual outcomes, the Company s results of operations could be materially impacted.

Unrecognized tax benefits, generally represented by liabilities on the consolidated balance sheet and all subject to tax examinations, arise when the estimated benefit recorded in the financial statements differs from the amounts taken or expected to be taken in a tax return because of the uncertainties described above. These unrecognized tax benefits relate primarily to issues common among multinational corporations. Virtually all of these unrecognized tax benefits, if recognized, would impact the effective income tax rate. The Company accounts for interest and potential penalties related to uncertain tax positions as part of its provision for income taxes. Increases to the amount of unrecognized tax benefits from January 1, 2011 of approximately $79.5 million relate primarily to current year operations. The Company s tax returns are under routine examination in many taxing jurisdictions. The scope of these examinations includes, but is not limited to, the review of the Company s taxable presence in a jurisdiction, deduction of certain items, the claims for research and development credits, compliance with transfer pricing rules and regulations and the inclusion or exclusion of amounts from tax returns as filed. Settlements of examinations with taxing authorities or statute of limitations expirations may result in significant changes in the Company s unrecognized tax benefits. Certain examinations are scheduled to conclude within the next 12 months. It is reasonably possible that the amount of the liability for unrecognized tax benefits could change by a significant amount during the next 12-month period as a result of settlements or statute of limitations expirations. Finalizing examinations with the relevant taxing authorities can include formal administrative and legal proceedings and, as a result, it is difficult to estimate the timing and range of possible change related to the Company s unrecognized tax benefits. An estimate of the range of the possible change cannot be made until issues are further developed or examinations close.

16. Collaboration Agreements

Novartis Pharma AG: The Company entered into an agreement with Novartis in which the Company granted to Novartis an exclusive worldwide license (excluding Canada) to develop and market FOCALIN® (d-methylphenidate, or d -MPH) and FOCALIN XR®, the long-acting drug formulation for attention deficit disorder, or ADD, and attention deficit hyperactivity disorder, or ADHD. The Company also granted Novartis rights to all of its related intellectual property and patents, including formulations of the currently marketed RITALIN LA®. Under the agreement, the Company is entitled to receive up to $100.0 million in upfront and regulatory achievement milestone payments. To date, the Company has received upfront and regulatory achievement milestone payments totaling $55.0 million. The Company also sells FOCALIN® to Novartis and also receives royalties of between 30% and 35% on sales of all of Novartis FOCALIN XR® and RITALIN® family of ADHD-related products.

The agreement will continue until the later of (i) the tenth anniversary of the first commercial launch on a country-by-country basis or (ii) when the last applicable patent expires with respect to that country. At the expiration date, the Company shall grant Novartis a perpetual, non-exclusive, royalty-free license to make, have made, use, import and sell d-MPH and Ritalin® under its technology.

Prior to its expiration as described above, the agreement may be terminated by:

i. Novartis at their sole discretion, effective 12 months after written notice to the Company, or

ii. by:

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

a. either party if the other party materially breaches any of its material obligations under the agreement,

b. the Company if Novartis fails to pay amounts due under the agreement two or more times in a 12-month period,

c. either party, on a product-by-product and country-by-country basis, in the event of withdrawal of the d-MPH product or Ritalin® product from the market because of regulatory mandate,

d. either party if the other party files for bankruptcy.

If the agreement is terminated by the Company then all licenses granted to Novartis under the agreement will terminate and Novartis will also grant the Company a non-exclusive license to certain of their intellectual property related to the compounds and products.

If the agreement is terminated by Novartis then all licenses granted to Novartis under the agreement will terminate.

If the agreement is terminated by Novartis because of a material breach by the Company, then Novartis can make a claim for damages against the Company and the Company shall grant Novartis a perpetual, non-exclusive, royalty-free license to make, have made, use, import and sell d-MPH and Ritalin® under the Company s technology.

When generic versions of long-acting methylphenidate hydrochloride and dexmethylphenidate hydrochloride enter the market, the Company expects Novartis sales of Ritalin LA® and Focalin XR® products to decrease and therefore its royalties under this agreement to also decrease.

Array BioPharma Inc.: The Company has a research collaboration agreement with Array BioPharma Inc., or Array, focused on the discovery, development and commercialization of novel therapeutics in cancer and inflammation. As part of this agreement, the Company made an upfront payment in September 2007 to Array of $40.0 million, which was recorded as research and development expense, in return for an option to receive exclusive worldwide rights for compounds developed against two of the four research targets defined in the agreement, except for Array s limited U.S. co-promotional rights. In June 2009, the Company made an additional upfront payment of $4.5 million to expand the research targets defined in the agreement, which was recorded as research and development expense. Array will be responsible for all discovery and clinical development through Phase I or Phase IIa and be entitled to receive, for each compound, potential milestone payments of approximately $200.0 million if certain discovery, development and regulatory milestones are achieved, and $300.0 million if certain commercial milestones

are achieved as well as royalties on net sales. In December 2010, the Company made a $10.0 million discovery milestone payment as required by the collaboration agreement upon the filing and clearance of an investigational new drug application with the FDA.

The Company s option will terminate upon the earlier of either a termination of the agreement, the date the Company has exercised its options for compounds developed against two of the four research targets defined in the agreement, or September 21, 2012, unless the term is extended. The Company may unilaterally extend the option term for two additional one-year terms until September 21, 2014 and the parties may mutually extend the term for two additional one-year terms until September 21, 2016. Upon exercise of a Company option, the agreement will continue until the Company has satisfied all royalty payment obligations to Array. Upon the expiration of the agreement, Array will grant the Company a fully paid-up, royalty-free license to use certain intellectual property of Array to market and sell the compounds and products developed under the agreement. The agreement may expire on a product-by-product and country-by-country basis as the Company satisfies its royalty payment obligation with respect to each product in each country.

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Prior to its expiration as described above, the agreement may be terminated by:

(i) the Company at its sole discretion, or

(ii) either party if the other party:

a. materially breaches any of its material obligations under the agreement, or

b. files for bankruptcy.

If the agreement is terminated by the Company at its sole discretion or by Array for a material breach by the Company, then the Company s rights to the compounds and products developed under the agreement will revert to Array. If the agreement is terminated by Array for a material breach by the Company, then the Company will also grant to Array a non-exclusive, royalty-free license to certain intellectual property controlled by the Company necessary to continue the development of such compounds and products. If the agreement is terminated by the Company for a material breach by Array, then, among other things, the Company s payment obligations under the agreement could be either reduced by 50% or terminated entirely.

Acceleron Pharma: The Company has a worldwide strategic collaboration with Acceleron Pharma, or Acceleron, for the joint development and commercialization of ACE-011, currently being studied for treatment of chemotherapy-induced anemia, metastatic bone disease and renal anemia. The collaboration, as amended, combines both companies resources and commitment to developing products for the treatment of cancer and cancer-related bone loss and expands the joint development, manufacturing and commercialization of Acceleron s products to include anemia exclusivity. The ACE-011 agreement also includes an option for certain discovery stage programs. Under the terms of the ACE-011 agreement, the Company and Acceleron will jointly develop, manufacture and commercialize Acceleron s products for bone loss. The Company made an upfront payment to Acceleron in February 2008 of $50.0 million, which included a $5.0 million equity investment in Acceleron, with the remainder recorded as research and development expense. In addition, in the event of an initial public offering of Acceleron, the Company will purchase a minimum of $7.0 million of Acceleron common stock. The Company has agreed to pay all development costs incurred after January 1, 2013. Until January 1, 2013, Acceleron will continue to pay its share of these development expenses.

Under the ACE-011 agreement, Acceleron will retain responsibility for initial activities, including research and development, through the end of Phase IIa clinical trials, as well as manufacturing the clinical supplies for these studies. In turn, the Company will conduct the Phase IIb and Phase III clinical studies and will oversee the manufacture of Phase III and commercial supplies. Acceleron will pay a share of the development expenses and is eligible to receive development, regulatory approval and sales-based milestones, as amended on August 2, 2011, of up to $367.0

million for the ACE-011 program and up to an additional $348.0 million for each of the three discovery stage programs. The companies will co-promote the products in North America. Acceleron will receive tiered royalties on worldwide net sales, upon the commercialization of a development compound. The Company made a $7.0 million development milestone payment to Acceleron in April 2011 for the initiation of enrollment into a Phase II study for chemotherapy-induced anemia.

On August 2, 2011, the Company also entered into a collaboration, license and option agreement with Acceleron, for the joint development and commercialization of ACE-536 for the treatment of anemia. The ACE-536 agreement also includes an option for future Acceleron anemia programs. The ACE-536 agreement provides the Company with an exclusive, worldwide, royalty-bearing license to the ACE-536 program and future Acceleron programs for the treatment of anemia. The parties also agreed to co-promote the products in the United States, Canada and Mexico.

Under the ACE-536 agreement, Acceleron will be responsible for initial activities, including research and development, and for conducting the Phase I and initial Phase II clinical trials, as well as manufacturing the clinical supplies for these studies. In turn, the Company will conduct subsequent Phase II and Phase III clinical studies and will oversee the manufacture of Phase III and commercial supplies.

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In August 2011, the Company made an upfront payment, under the ACE-536 agreement, to Acceleron in the amount of $25.0 million. The Company has also agreed to pay all development costs incurred after January 1, 2013. Until January 1, 2013, Acceleron will pay its portion of the development expenses. Acceleron is eligible to receive development, regulatory approval and sales-based milestones of up to $217.5 million for the ACE-536 program and up to an additional $170.8 million for the first discovery stage program, $148.8 million for the second discovery stage program and $125.4 million for each additional discovery stage program thereafter. In September 2011, the Company recorded an expense of $7.5 million, which was paid in October 2011, for a milestone payment for the initiation of a Phase I clinical study of ACE-536. Acceleron will receive tiered royalties on worldwide net sales, upon the commercialization of a development compound. Pursuant to the ACE-011 agreement, the Company has an option to buy down the royalty rate, for both ACE-011, as described above, and ACE-536, until and including January 1, 2013 at the Company s sole discretion for a one-time payment of $25.0 million.

The agreements for ACE-011 and ACE-536 will each continue until the Company has satisfied all royalty payment obligations to Acceleron and the Company has either exercised or forfeited all of its options under such agreement. Upon the Company s full satisfaction of its royalty payment obligations to Acceleron under each such agreement, all licenses granted to the Company by Acceleron under the agreement will become fully paid-up, perpetual, non-exclusive, irrevocable and royalty-free licenses. Each agreement may expire on a product-by-product and country-by-country basis as the Company satisfies its royalty payment obligation with respect to each product in each country.

Prior to its expiration as described above, each agreement may be terminated by:

(i) the Company at its sole discretion, at any time for the ACE-011 agreement and with respect to the ACE-536 agreement after completion of the initial Phase II clinical trials, or

(ii) either party if the other party:

a. materially breaches any of its material obligations under the agreement, or

b. files for bankruptcy.

If the ACE-011 or ACE-536 agreement is terminated by the Company at its sole discretion or by Acceleron for a material breach by the Company, then all licenses granted to the Company under such agreement will terminate and the Company will also grant to Acceleron a non-exclusive license to certain intellectual property of the Company related to the compounds and products under such agreement. If the ACE-011 or ACE-536 agreement is terminated by the Company for a material breach by Acceleron, then, among other things, (A) the licenses granted to Acceleron under such agreement will terminate, (B) the licenses granted to the Company under such agreement will continue in

perpetuity, (C) all future royalties payable by the Company under such agreement will be reduced by 50% and (D) the Company s obligation to make any future milestone payments will terminate under such agreement.

Cabrellis Pharmaceuticals Corp.: The Company, as a result of its acquisition of Pharmion, obtained an exclusive license to develop and commercialize amrubicin in North America and Europe pursuant to a license agreement with Dainippon Sumitomo Pharma Co. Ltd, or DSP. Pursuant to Pharmion s acquisition of Cabrellis Pharmaceutics Corp., or Cabrellis, prior to the Company s acquisition of Pharmion, the Company will pay $12.5 million for each approval of amrubicin in an initial indication by regulatory authorities in the United States and the E.U. to the former shareholders of Cabrellis. Upon approval of amrubicin for a second indication in the United States or the E.U., the Company will pay an additional $10.0 million for each market to the former shareholders of Cabrellis. Under the terms of the license agreement for amrubicin, the Company is required to make milestone payments of $7.0 million and $1.0 million to DSP upon regulatory approval of amrubicin in the United States and upon receipt of the first approval in the E.U.,

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respectively, and up to $17.5 million upon achieving certain annual sales levels in the United States. Pursuant to the supply agreement for amrubicin, the Company is to pay DSP a semiannual supply price calculated as a percentage of net sales for a period of ten years.

The amrubicin license expires on a country-by-country basis and on a product-by-product basis upon the later of the (i) tenth anniversary of the first commercial sale of the applicable product in a given country after the issuance of marketing authorization in such country and (ii) first day of the first quarter for which the total number of generic product units sold in a given country exceeds 20% of the total number of generic product units sold plus licensed product units sold in the relevant country during the same calendar quarter.

Prior to its expiration as described above, the amrubicin license may be terminated by:

(i) the Company at its sole discretion,

(ii) either party if the other party:

a. materially breaches any of its material obligations under the agreement, or

b. files for bankruptcy,

(iii) DSP if the Company takes any action to challenge the title or validity of the patents owned by DSP, or

(iv) DSP in the event of a change in control of the Company.

If the agreement is terminated by the Company at its sole discretion or by DSP under circumstances described in clauses (ii)(a) or (iii) above, respectively, then the Company will transfer its rights to the compounds and products developed under the agreement to DSP and will also grant to DSP a non-exclusive, perpetual, royalty-free license to certain intellectual property controlled by the Company necessary to continue the development of such compounds and products. If the agreement is terminated by the Company for a material breach by DSP, then, among other

things, DSP will grant to the Company an exclusive, perpetual, paid-up license to all of the intellectual property of DSP necessary to continue the development, marketing and selling of the compounds and products subject to the agreement.

GlobeImmune, Inc.: In September 2007, the Company made a $3.0 million equity investment in GlobeImmune, Inc., or GlobeImmune. In April 2009 and May 2009, the Company made additional $0.1 million and $10.0 million equity investments, respectively, in GlobeImmune. In addition, the Company has a collaboration and option agreement with GlobeImmune focused on the discovery, development and commercialization of novel therapeutics in cancer. As part of this agreement, the Company made an upfront payment in May 2009 of $30.0 million, which was recorded as research and development expense, to GlobeImmune in return for the option to license compounds and products based on the GI-4000, GI-6200, GI-3000 and GI-10000 oncology drug candidate programs as well as oncology compounds and products resulting from future programs controlled by GlobeImmune. In June 2011, the collaboration and option agreement was amended, for no additional upfront consideration, to remove collaboration compound GI-10000 and replace it with collaboration compound GI-6300. GlobeImmune will be responsible for all discovery and clinical development until the Company exercises its option with respect to a drug candidate program and GlobeImmune will be entitled to receive potential milestone payments of approximately $230.0 million for the GI-4000 program, $145.0 million for each of the GI-6200 and GI-3000 programs and $161.0 million for each of the GI-6300 program and each additional future program if certain development, regulatory and sales-based milestones are achieved. GlobeImmune will also receive tiered royalties on worldwide net sales.

The Company s options with respect to the GI-4000, GI-6200, GI-3000 and GI-6300 oncology drug candidate programs will terminate if the Company does not exercise its respective options after delivery of certain reports from GlobeImmune on the completed clinical trials with respect to each drug candidate program, as set forth in the initial development plan specified in the agreement. If the Company does not exercise its options with respect to any drug candidate program or future program, the Company s option

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

with respect to the oncology products resulting from future programs controlled by GlobeImmune will terminate three years after the last of the options with respect to the GI-4000, GI-6200, GI-3000 and GI-6300 oncology drug candidate programs terminates. Upon exercise of a Company option, the agreement will continue until the Company has satisfied all royalty payment obligations to GlobeImmune. Upon the expiration of the agreement, on a product-by-product, country-by-country basis, GlobeImmune will grant the Company an exclusive, fully paid-up, royalty-free, perpetual license to use certain intellectual property of GlobeImmune to market and sell the compounds and products developed under the agreement. The agreement may expire on a product-by-product and country-by-country basis as the Company satisfies its royalty payment obligation with respect to each product in each country.

Prior to its expiration as described above, the agreement may be terminated by:

(i) the Company at its sole discretion, or

(ii) either party if the other party:

a. materially breaches any of its material obligations under the agreement, or

b. files for bankruptcy.

If the agreement is terminated by the Company at its sole discretion or by GlobeImmune for a material breach by the Company, then the Company s rights to the compounds and products developed under the agreement will revert to GlobeImmune. If the agreement is terminated by the Company for a material breach by GlobeImmune, then, among other things, the Company s royalty payment obligations under the agreement will be reduced by 50%, the Company s development milestone payment obligations under the agreement will be reduced by 50% or terminated entirely and the Company s sales milestone payment obligations under the agreement will be terminated entirely.

Agios Pharmaceuticals, Inc.: On April 14, 2010, the Company entered into a discovery and development collaboration and license agreement with Agios Pharmaceuticals, Inc., or Agios, which focuses on cancer metabolism targets and the discovery, development and commercialization of associated therapeutics. As part of the agreement, the Company paid Agios a $121.2 million non-refundable, upfront payment, which was expensed by the Company as research and development in the second quarter of 2010. The Company also made an $8.8 million equity investment in Agios Series B Convertible Preferred Stock, representing approximately a 10.94% ownership interest in Agios and is included in other non-current assets in the Company s Consolidated Balance Sheets. The Company receives an initial period of exclusivity during which it has the option to develop any drugs resulting from the Agios cancer metabolism research platform and may extend this exclusivity period by providing Agios additional funding. The Company has an exclusive option to license any resulting clinical candidates developed during this

period and will lead and fund global development and commercialization of certain licensed programs. With respect to each product in a program that the Company chooses to license, Agios could receive up to $120.0 million upon achievement of certain milestones plus royalties on sales, and Agios may also participate in the development and commercialization of certain products in the United States. Agios may also receive a one-time milestone payment of $25.0 million upon dosing of the final human subject in a Phase II study, such payment to be made only once with respect to only one program.

Under the original terms, unless the agreement was earlier terminated or the option term was extended, the Company s option was set to terminate on April 14, 2013. However, if certain development targets are not met, the Company may unilaterally extend the option term: (a) for up to an additional one year without payment; (b) subject to certain criteria and upon payment of certain predetermined amounts to Agios, for up to two additional years thereafter.

In October 2011, the Company and Agios agreed to extend the initial period of exclusivity by one year to April 14, 2014 in exchange for payment by the Company of $20.0 million. The agreement was also amended to grant Agios the right to develop certain compounds covered by the collaboration agreement for indications not related to oncology and outside of the collaboration agreement. The amendment provides the Company with the right of first negotiation to license eventual products developed from these compounds.

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Following expiration of the option, the agreement will continue in place with respect to programs to which the Company has exercised its option or otherwise is granted rights to develop. The agreement may expire on a product-by-product and country-by-country basis as the Company satisfies its payment obligation with respect to each product in each country. Upon the expiration of the agreement with respect to a product in a country, all licenses granted by one party to the other party for such product in such country shall become fully paid-up, perpetual, sub licensable, irrevocable and royalty-free.

Prior to its expiration as described above, the agreement may be terminated by:

(i) the Company at its sole discretion, or

(ii) either party if the other party:

a. materially breaches the agreement and fails to cure such breach within the specified period, or

b. files for bankruptcy.

The party terminating under (i) or (ii)(a) above has the right to terminate on a program-by-program basis, leaving the agreement in effect with respect to remaining programs. If the agreement or any program is terminated by the Company for convenience or by Agios for a material breach or bankruptcy by the Company, then, among other things, depending on the type of program and territorial rights: (a) certain licenses granted by the Company to Agios shall stay in place, subject to Agios payment of certain royalties to the Company: and (b) the Company will grant Agios a non-exclusive, perpetual, royalty-free license to certain technology developed in the conduct of the collaboration and used in the program (which license is exclusive with respect to certain limited collaboration technology). If the agreement or any program is terminated by the Company for a material breach or bankruptcy by Agios, then, among other things, all licenses granted by the Company to Agios will terminate and: (i) the Company s license from Agios will continue in perpetuity and all payment obligations will be reduced or will terminate; (ii) the Company s license for certain programs will become exclusive worldwide: and (iii) with regard to any program where the Company has exercised buy-in rights, Agios shall continue to pay certain royalties to the Company.

The Company has determined that Agios is a variable interest entity; however, the Company is not the primary beneficiary of Agios. Although the Company would have the right to receive the benefits from the collaboration and license agreement and it is probable that this agreement incorporates the activities that most significantly impact the economic performance of Agios for up to six years, the Company does not have the power to direct the activities under the collaboration and license agreement as Agios has the decision-making authority for the Joint Steering Committee and Joint Research Committee until the Company exercises its option to license a product. The Company s interest in Agios is limited

to its 10.94% equity ownership and it does not have any obligations or rights to the future losses or returns of Agios beyond this ownership. The collaboration agreement, including the upfront payment and series B convertible preferred stock investment, does not entitle the Company to participate in future returns beyond the 10.94% ownership and it does not obligate the Company to absorb future losses beyond the $8.8 million investment in Agios Series B Convertible Preferred Stock. In addition, there are no other agreements other than the collaboration agreement that entitle the Company to receive returns beyond the 10.94% ownership or obligate the Company to absorb additional losses.

The Institute for Advanced Health: In April 2011, the Company entered into an agreement with the Institute for Advanced Health, or the Institute, that included an upfront contribution, future contingent matching contributions and an additional milestone-based contingent payment. The Institute is a non-profit organization dedicated to research and technology development in personalized molecular medicine of which Dr. Patrick Soon-Shiong is the Chairman and Chief Executive Officer. Under the terms of the agreement, the Company made an initial contribution with a value of $41.0 million. The agreement provides for additional contributions of up to $50.0 million to be made by the Company based on the level of other third-party contributions received by the Institute. No contributions have been made as of September 30, 2011. A final additional $25.0 million milestone-based payment is contingent upon the Institute achieving specified results

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

related to the collection of DNA data and genomic sequences and the initiation of research and development alliances to be achieved before December 31, 2015. Contributions made under this agreement will be recognized on the Company s Statements of Income as research and development expense.

As part of the contribution agreement, the Company will receive a right of first offer and matching rights with respect to all oncology products developed, funded, acquired or licensed by the Institute, the right to designate one of its employees to the Institute s Scientific Advisory Board and will be the exclusive oncology therapeutics sponsor of the Institute. These rights will continue for as long as the Company continues to make payments under a preexisting agreement.

17. Commitments and Contingencies

Collaboration Arrangements: The Company has entered into certain research and development collaboration agreements, as identified in Note 16, with third parties that include the funding of certain development, manufacturing and commercialization efforts with the potential for future milestone and royalty payments upon the achievement of pre-established developmental, regulatory and/or commercial targets. The Company s obligation to fund these efforts is contingent upon continued involvement in the programs and/or the lack of any adverse events which could cause the discontinuance of the programs. Due to the nature of these arrangements, the future potential payments are inherently uncertain, and accordingly no amounts have been recorded in the Company s accompanying Consolidated Balance Sheets at September 30, 2011 and December 31, 2010.

Contingencies: The Company believes it maintains insurance coverage adequate for its current needs. The Company s operations are subject to environmental laws and regulations, which impose limitations on the discharge of pollutants into the air and water and establish standards for the treatment, storage and disposal of solid and hazardous wastes. The Company reviews the effects of such laws and regulations on its operations and modifies its operations as appropriate. The Company believes it is in substantial compliance with all applicable environmental laws and regulations.

On January 20, 2011, the Supreme Court of Canada ruled that the jurisdiction of the Patented Medicine Prices Review Board, or the PMPRB, extends to sales of drugs to Canadian patients even if the locus of sale is within the United States. As a result of this ruling, the Company s U.S. sales of THALOMID® brand drug to Canadian patients under the special access program are subject to PMPRB jurisdiction on and after January 12, 1995. In accordance with the ruling of the Supreme Court of Canada, we have provided to-date data regarding these special access program sales to the PMPRB. In light of the approval of THALOMID® brand drug for multiple myeloma by Health Canada on August 4, 2010, this drug is currently sold through the Company s Canadian entity and is no longer sold to Canadian patients in the United States. The PMPRB s proposed pricing arrangement has not been determined. Depending on the calculation, the Company may be requested to return certain revenues associated with these sales and to pay fines. Should this occur, the Company would have to consider various legal options to address whether the pricing determination was reasonable.

18. Legal Proceedings

The Company and certain of its subsidiaries are involved in various patent, commercial and other claims; government investigations; and other legal proceedings that arise from time to time in the ordinary course of business. These legal proceedings and other matters are complex in nature and have outcomes that are difficult to predict and could have a material adverse effect on the Company.

Patent proceedings include challenges to scope, validity or enforceability of our patents relating to the Company s various products or processes. Although the Company believes it has substantial defenses to these challenges with respect to all its material patents, there can be no assurance as to the outcome of these

Table of Contents

Celgene CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

matters, and a loss in any of these cases could result in a loss of patent protection for the drug at issue, which could lead to a significant loss of sales of that drug and could materially affect future results of operations.

Among the principal matters pending to which the Company is a party are the following:

In the fourth quarter of 2009, the Company received a Civil Investigative Demand, or CID, from the U.S. Federal Trade Commission, or the FTC. The FTC requested documents and other information relating to requests by generic companies to purchase the Company s patented REVLIMID® and THALOMID® brand drugs in order to evaluate whether there is reason to believe that the Company has engaged in unfair methods of competition. In the first quarter of 2010, the State of Connecticut referenced the same issues as those referenced in the 2009 CID and issued a subpoena. In the fourth quarter of 2010, the Company received a second CID from the FTC relating to this matter. The Company continues to respond to requests for information.

REVLIMID®: The Company has publicly announced that it has received a notice letter dated August 30, 2010, sent from Natco Pharma Limited of India (Natco) notifying it of a Paragraph IV certification alleging that patents listed for REVLIMID® in the Orange Book are invalid, and/or not infringed (the Notice Letter). The Notice Letter was sent pursuant to Natco having filed an abbreviated new drug application, or ANDA, seeking permission from the FDA to market a generic version of 25mg, 15mg, 10mg and 5mg capsules of REVLIMID®. Under the federal Hatch-Waxman Act of 1984, any generic manufacturer may file an ANDA with a certification (a Paragraph IV certification) challenging the validity or infringement of a patent listed in the FDA s *Approved Drug Products With Therapeutic Equivalence Evaluations* (the Orange Book) four years after the pioneer company obtains approval of its New Drug Application, or an NDA. On October 8, 2010, we filed an infringement action in the United States District Court of New Jersey against Natco in response to the Notice Letter with respect to United States Patent Nos. 5,635,517 (the 517 patent), 6,045,501 (the 501 patent), 6,281,230 (the 230 patent), 6,315,720 (the 720 patent), 6,555,554 (the patent), 6,561,976 (the 976 patent), 6,561,977 (the 977 patent), 6,755,784 (the 784 patent), 7,119,106 (the 106 patent), and 7,465,800 (t patent). If Natco is successful in challenging the Company s patents listed in the Orange Book, and the FDA were to approve the ANDA with a comprehensive education and risk management program for a generic version of lenalidomide, sales of REVLIMID® could be significantly reduced in the United States by the entrance of a generic lenalidomide product, potentially reducing the Company s revenue.

Natco responded to the Company s infringement action on November 18, 2010, with its Answer, Affirmative Defenses and Counterclaims. Natco has alleged (through Affirmative Defenses and Counterclaims) that the patents are invalid, unenforceable and/or not infringed by Natco s proposed generic productions. After filing the infringement action, the Company learned the identity of Natco s U.S. partner, Arrow International Limited, or Arrow, and filed an amended complaint on January 7, 2011, adding Arrow as a defendant.

The Company believes that Natco s counterclaims are likely to be unsustainable and intends to vigorously defend its patent rights. The Company believes it unlikely that Natco will prevail on each and every patent and patent claim subject to the lawsuit and that all of the patents would be deemed to be invalidated, unenforceable and/or non-infringed. In addition the Company believes that it is unlikely that the FDA will approve an appropriate, non-infringing comprehensive education and risk management program for a generic version of lenalidomide. Accordingly, the Company believes that the ultimate outcome will not have a material adverse effect on its financial condition or results of operations.

In the first quarter of 2011, the Company received a letter from the United States Attorney for the Central District of California informing the Company that it was under investigation relating to its promotion of the drugs THALOMID® and REVLIMID® regarding off-label marketing and improper payments to physicians. The Company is cooperating with the United States Attorney in connection with this investigation.

Table of Contents

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

Forward-Looking Information

This report contains forward-looking statements that reflect the current views of our management with respect to future events, results of operations, economic performance and/or financial condition. Any statements contained in this report that are not statements of historical fact may be deemed forward-looking statements. Forward-looking statements generally are identified by the words expects, anticipates, believes, intends, estimates, aims, plans, may, could, will, will continue, seeks, should, predicts, potential, outlook, guidance possible or the negative of such terms and similar expressions. Forward-looking statements are based on current plans, estimates, assumptions and projections, which are subject to change and may be affected by risks and uncertainties, most of which are difficult to predict and are generally beyond our control. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events, although we intend to continue to meet our ongoing disclosure obligations under the U.S. securities laws and other applicable laws. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements, and therefore you should not place too much reliance on them. These factors include, among others, those described in the sections Forward-Looking Statements and Risk Factors contained in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission, or the SEC, and in this report and our other public reports filed with the SEC. If these or other risks and uncertainties materialize, or if the assumptions underlying any of the forward-looking statements prove incorrect, our actual performance and future actions may be materially different from those expressed in, or implied by, such forward-looking statements. We can offer no assurance that our estimates or expectations will prove accurate or that we will be able to achieve our strategic and operational goals.

Executive Summary

Celgene Corporation and its subsidiaries (collectively we, our or us) is a global biopharmaceutical company primarily engaged in the discovery, development and commercialization of innovative therapies designed to treat cancer and immune-inflammatory related diseases. We are dedicated to innovative research and development which is designed to bring new therapies to market and are involved in research in several scientific areas that may deliver proprietary next-generation therapies, targeting areas such as intracellular signaling pathways in cancer and immune cells, immunomodulation in cancer and autoimmunity and placental cell, including stem and progenitor cell, research.

Our primary commercial stage products include REVLIMID®, VIDAZA®, THALOMID® (inclusive of Thalidomide Celgene® and Thalidomide Pharmion®), ABRAXANE® and ISTODAX®.

- REVLIMID® is an oral immunomodulatory drug primarily marketed in the United States and select international markets, in combination with dexamethasone, for treatment of patients with multiple myeloma who have received at least one prior therapy and for the treatment of transfusion-dependent anemia due to low- or intermediate-1-risk myelodysplastic syndromes, or MDS, associated with a deletion 5q cytogenetic abnormality with or without additional cytogenetic abnormalities.

- VIDAZA®, which is licensed from Pfizer, is a pyrimidine nucleoside analog that has been shown to reverse the effects of DNA hypermethylation and promote subsequent gene re-expression. VIDAZA® is a Category 1 recommended treatment for patients with

intermediate-2 and high-risk MDS according to the National Comprehensive Cancer Network, or NCCN, and is marketed in the United States for the treatment of all subtypes of MDS. The U.S. regulatory exclusivity for

Table of Contents

VIDAZA® expired on May 19, 2011. If a generic version of VIDAZA® is successfully launched, we may quickly lose a significant portion of our sales for this product in the United States. In Europe, VIDAZA® is marketed for the treatment of intermediate-2 and high-risk MDS as well as acute myeloid leukemia, or AML, with 30% blasts and has been granted orphan drug designation for the treatment of MDS and AML. We have regulatory exclusivity for VIDAZA® in Europe until 2018 and Japan until January 2021.

- THALOMID® is marketed for patients with newly diagnosed multiple myeloma and for the acute treatment of the cutaneous manifestations of moderate to severe erythema nodosum leprosum, or ENL, an inflammatory complication of leprosy and as maintenance therapy for prevention and suppression of the cutaneous manifestation of ENL recurrence.

- ABRAXANE®, which was obtained in the 2010 acquisition of Abraxis BioScience Inc., or Abraxis, is a nanoparticle, albumin-bound paclitaxel that was approved by the U.S. Food and Drug Administration, or FDA, in January 2005 for the treatment of metastatic breast cancer. ABRAXANE® is based on a tumor-targeting platform known as nab® technology.

- ISTODAX®, which was obtained in the 2010 acquisition of Gloucester Pharmaceuticals, Inc., or Gloucester, was approved in November 2009 by the FDA for the treatment of cutaneous T-cell lymphoma, or CTCL, in patients who have received at least one prior systemic therapy and in June 2011 for the treatment of peripheral T-cell lymphoma, or PTCL, in patients who have received at least one prior therapy. ISTODAX® has received orphan drug designation for the treatment of non-Hodgkin s T-cell lymphomas, which includes CTCL and PTCL. The European Agency for the Evaluation of Medicinal Products, or EMA, has granted orphan status designation for ISTODAX® for the treatment of both CTCL and PTCL.

Additional sources of revenue include a licensing agreement with Novartis, which entitles us to royalties on FOCALIN XR® and the entire RITALIN® family of drugs, the sale of services through our Cellular Therapeutics subsidiary and other miscellaneous licensing agreements.

We continue to invest substantially in research and development, and the drug candidates in our pipeline are at various stages of preclinical and clinical development. These candidates include our IMiDs® compounds, which are a class of compounds proprietary to us and have certain immunomodulatory and other biologically important properties, our leading oral anti-inflammatory agents, our cell products and our nanoparticle, albumin-bound compounds. We believe that continued acceptance of our primary commercial stage products, participation in research and development collaboration arrangements, depth of our product pipeline, regulatory approvals of both new products and expanded use of existing products will provide the catalysts for future growth.

The following table summarizes total revenue and earnings for the three- and nine-month periods ended September 30, 2011 and 2010:

	Three-Month Periods Ended September 30,			
(In thousands $, except earnings per share)	2011	2010	Increase	Percent Change
Total revenue	$ 1,249,737	$ 910,111	$ 339,626	37.3%

Net income attributable to Celgene	$	372,984	$	281,151	$	91,833	32.7%
Diluted earnings per share attributable to Celgene	$	0.81	$	0.60	$	0.21	35.0%

Table of Contents

(In thousands $, except earnings per share)	Nine-Month Periods Ended September 30, 2011	2010	Increase	Percent Change
Total revenue	$ 3,558,173	$ 2,554,057	$ 1,004,116	39.3%
Net income attributable to Celgene	$ 907,972	$ 670,945	$ 237,027	35.3%
Diluted earnings per share attributable to Celgene	$ 1.94	$ 1.44	$ 0.50	34.7%

The increase in revenue for the three- and nine-month periods ended September 30, 2011 compared to the three- and nine-month periods ended September 30, 2010 was primarily due to the continued growth of REVLIMID® and VIDAZA® in both U.S. and international markets, in addition to sales of ABRAXANE® subsequent to the acquisition of Abraxis in October 2010. Net income and diluted earnings per share for the three- and nine-month periods ended September 30, 2011 reflect the higher level of revenue, partly offset by additional costs incurred resulting from the acquisition of Abraxis in October 2010, in addition to increased spending for new product launches and research and development activities.

Sale of Non-core Assets: The purchase of Abraxis included a number of assets that were not associated with nab® technology or ABRAXANE®. These assets, or non-core assets, consisted of a number of subsidiaries, tangible assets, equity investments, joint venture partnerships and assets that supported research and sales of products not related to nab® technology. At the time of acquisition, we were committed to a plan to divest the non-core assets and they were classified on the Consolidated Balance Sheets as of December 31, 2010 as assets held for sale and the associated liabilities were classified as liabilities of disposal group. In April 2011, we sold the non-core assets to various entities that are owned or controlled by Dr. Patrick Soon-Shiong, the former majority shareholder and executive chairman of Abraxis.

We received cash consideration of $110.0 million, 10% equity ownership in an entity, Active Biomaterials, LLC, formed with certain of the non-core assets with revenue-producing potential and a future royalty stream based on net sales of certain products of Active Biomaterials, LLC. The royalties, which commence in 2014 at the earliest and are not to exceed an annual amount of $128.0 million, will be calculated based on a range of between 10% and 12.5% of net sales of certain future products. Dr. Patrick Soon-Shiong holds an option to purchase the 10% equity ownership in Active Biomaterials, LLC from us for a price of $15.0 million at any time prior to April 2013. The equity ownership was recorded at its fair market value of $14.0 million based on the present value of the amount likely to be received upon exercise of the purchase option. We recorded the future royalty stream as an asset and assigned a value of $170.0 million based on its fair market value calculated as the present value of estimated future net cash flows. The sale of the non-core assets resulted in a gain of $2.9 million which was included in the Consolidated Statements of Income in other income (expense), net. Our policy is to present gains and losses from sales of businesses as other income or expense.

Assets Held For Sale: In June 2011, management made the decision that certain additional assets associated with facilities acquired from Abraxis are intended to be sold as we rationalize certain manufacturing facilities. These additional assets are classified on the Consolidated Balance Sheets as of September 30, 2011 as assets held for sale and the associated liabilities are classified as liabilities of disposal group.

Gloucester Acquisition Milestone Achievement: In June 2011, the FDA granted accelerated approval of the Supplemental New Drug Application for ISTODAX® for the treatment of peripheral T-cell lymphoma, or PTCL, in patients who have received at least one prior therapy. This FDA approval was the triggering event for the payment of one of the two contingent regulatory milestone payments associated with the Gloucester acquisition. We made a payment of $180.0 million to the former shareholders of Gloucester in July 2011 in satisfaction of this milestone payment requirement. The single remaining contingent milestone payment is for a $120.0 million cash payment upon the marketing approval for the European Union PTCL.

38

Table of Contents

We measure this contingent consideration arrangement at fair value for each period with changes in fair value recognized in operating earnings. Changes in fair value reflect new information about the IPR&D assets and the passage of time. In the absence of new information, changes in fair value reflect only the passage of time as development work towards the achievement of the milestones progresses, and will be accrued based on an accretion schedule. At September 30, 2011, the balance of the contingent consideration was $87.1 million and is included in other non-current liabilities.

Results of Operations:

Three-Month Periods Ended September 30, 2011 and 2010

Total Revenue: Total revenue and related percentages for the three-month periods ended September 30, 2011 and 2010 were as follows:

(In thousands $)	Three-Month Periods Ended September 30, 2011	2010	Increase (Decrease)	Percent Change
Net product sales:				
REVLIMID ®	$ 820,019	$ 641,272	$ 178,747	27.9%
VIDAZA ®	191,162	141,422	49,740	35.2%
THALOMID ®	83,305	94,179	(10,874)	-11.5%
ABRAXANE ®	113,549		113,549	N/A
ISTODAX ®	8,252	5,414	2,838	52.4%
Other	2,831	3,369	(538)	-16.0%
Total net product sales	$ 1,219,118	$ 885,656	$ 333,462	37.7%
Collaborative agreements and other revenue	3,766	2,241	1,525	68.0%
Royalty revenue	26,853	22,214	4,639	20.9%
Total revenue	$ 1,249,737	$ 910,111	$ 339,626	37.3%

Total revenue increased by $339.6 million, or 37.3%, to $1.250 billion for the three-month period ended September 30, 2011 compared to the three-month period ended September 30, 2010, reflecting increases of $190.9 million, or 35.5%, in the United States, and $148.7 million, or 39.9%, in international markets.

Net Product Sales:

Total net product sales for the three-month period ended September 30, 2011 increased by $333.5 million, or 37.7%, to $1.219 billion compared to the three-month period ended September 30, 2010. The increase was comprised of net volume increases of $300.8 million, price increases of $11.7 million and a favorable impact from foreign exchange of $21.0 million. The increase in price was primarily due to price increases on THALOMID®, a decreased accrual rate for invoices related to Medicaid Managed Care Organizations in 2011 and a refinement of prior period Medicare Part D Coverage Gap charges.

REVLIMID® net sales increased by $178.7 million, or 27.9%, to $820.0 million for the three-month period ended September 30, 2011 compared to the three-month period ended September 30, 2010, primarily due to increased unit sales in both U.S. and international markets. Increased market penetration and the increase in treatment duration of patients using REVLIMID® in multiple myeloma contributed to U.S. growth. The growth in international markets reflects the expansion of our commercial activities in addition to product reimbursement approvals and the launch of REVLIMID® in Japan in the latter part of 2010.

Table of Contents

VIDAZA® net sales increased by $49.7 million, or 35.2%, to $191.2 million for the three-month period ended September 30, 2011 compared to the three-month period ended September 30, 2010, with sales increases in both the U.S. and international markets. The growth in international markets was primarily due to the increase in treatment duration of patients using VIDAZA® and product launches in additional countries. VIDAZA® retains orphan drug exclusivity in Europe through the end of 2018 and in Japan until January 2021.

THALOMID® net sales decreased by $10.9 million, or 11.5%, to $83.3 million for the three-month period ended September 30, 2011 compared to the three-month period ended September 30, 2010, primarily due to lower unit volumes in the United States.

ABRAXANE® was obtained in the acquisition of Abraxis in October 2010 and was approved by the FDA in January 2005 for the treatment of metastatic breast cancer.

ISTODAX® net sales increased by $2.8 million, or 52.4%, to $8.3 million for the three-month period ended September 30, 2011 compared to the three-month period ended September 30, 2010. ISTODAX® was obtained in the acquisition of Gloucester in January 2010 and was approved by the FDA for the treatment of CTCL in November 2009 and PTCL in June 2011 in patients who have received at least one prior therapy. ISTODAX® was launched for the treatment of CTCL in March 2010.

The other net product sales category for the three-month period ended September 30, 2011 primarily included $0.9 million in sales of FOCALIN® and $1.5 million in sales of Pharmion products to be divested. The other net product sales category for the three-month period ended September 30, 2010 primarily included $0.9 million in sales of FOCALIN® and $2.0 million in sales of Pharmion products to be divested.

Collaborative Agreements and Other Revenue: Revenues from collaborative agreements and other sources increased by $1.5 million to $3.8 million for the three-month period ended September 30, 2011 compared to the three-month period ended September 30, 2010. The increase was primarily due to an increase in licensing fees and sale of services through our Cellular Therapeutics subsidiary in the current year quarter.

Royalty Revenue: Royalty revenue increased by $4.6 million to $26.9 million for the three-month period ended September 30, 2011 compared to the three-month period ended September 30, 2010 primarily due to an increase in royalties earned from Novartis on its sales of FOCALIN XR® and the entire RITALIN® family of drugs.

Gross to Net Sales Accruals: We record gross to net sales accruals for sales returns and allowances, sales discounts, government rebates, and chargebacks and distributor service fees.

REVLIMID® is distributed in the United States primarily through contracted pharmacies under the RevAssist® program, which is a proprietary risk-management distribution program tailored specifically to help ensure the safe and appropriate distribution and use of REVLIMID®. Internationally, REVLIMID® is distributed under mandatory risk-management distribution programs tailored to meet local competent authorities specifications to help ensure the product s safe and appropriate distribution and use. These programs may vary by country and, depending upon the country and the design of the risk-management program, the product may be sold through hospitals or retail pharmacies.

THALOMID® is distributed in the United States under our proprietary *System for Thalidomide Education and Prescribing Safety,* or S.T.E.P.S.®, program which is a comprehensive education and risk-management distribution program with the objective of providing for the safe and appropriate distribution and use of THALOMID®. Internationally, THALOMID® is distributed under mandatory risk-management distribution programs tailored to meet local competent authorities specifications to help ensure the safe and appropriate distribution and use of THALOMID®. These programs may vary by country and, depending upon the country and the design of the

Table of Contents

risk-management program, the product may be sold through hospitals or retail pharmacies. VIDAZA®, ISTODAX® and ABRAXANE® are distributed through the more traditional pharmaceutical industry supply chain and are not subject to the same risk-management distribution programs as THALOMID® and REVLIMID®.

We base our sales returns allowance on estimated on-hand retail/hospital inventories, measured end-customer demand as reported by third-party sources, actual returns history and other factors, such as the trend experience for lots where product is still being returned or inventory centralization and rationalization initiatives conducted by major pharmacy chains, as applicable. If the historical data we use to calculate these estimates do not properly reflect future returns, then a change in the allowance would be made in the period in which such a determination is made and revenues in that period could be materially affected. Under this methodology, we track actual returns by individual production lots. Returns on closed lots, that is, lots no longer eligible for return credits, are analyzed to determine historical returns experience. Returns on open lots, that is, lots still eligible for return credits, are monitored and compared with historical return trend rates. Any changes from the historical trend rates are considered in determining the current sales return allowance. As noted above, REVLIMID® is distributed primarily through hospitals and contracted pharmacies, lending itself to tighter controls of inventory quantities within the supply channel and, thus, resulting in lower returns activity. THALOMID® is drop-shipped directly to the prescribing pharmacy and, as a result, wholesalers do not stock the product.

Sales discount accruals are based on payment terms extended to customers.

Government rebate accruals are based on estimated payments due to governmental agencies for purchases made by third parties under various governmental programs. U.S. Medicaid rebate accruals are generally based on historical payment data and estimates of future Medicaid beneficiary utilization applied to the Medicaid unit rebate formula established by the Center for Medicaid and Medicare Services. The Medicaid rebate percentage was increased and extended to Medicaid Managed Care Organizations in March 2010. The accrual of the rebates associated with Medicaid Managed Care Organizations is calculated based on estimated historical patient data related to Medicaid Managed Care Organizations. Net revenues for the period ended September 30, 2011 were negatively impacted by a component of the U.S. Health Care Reform Act of 2010, or Health Care Reform Act, which became effective January 1, 2011 and required manufacturers of pharmaceutical products to be responsible for 50% of the patient s cost of branded prescription drugs related to the Medicare Part D Coverage Gap. In order to estimate the cost to us of this coverage gap responsibility, we analyze data for eligible Medicare Part D patients against data for eligible Medicare Part D patients treated with our products. This expense is recognized throughout the year as incurred. In addition, certain international markets have government-sponsored programs that require rebates to be paid based on program specific rules and, accordingly, the rebate accruals are determined primarily on estimated eligible sales. The Health Care Reform Act mandated an annual fee payable by branded prescription drug manufacturers and importers on branded prescription drugs. The fee, which is not material, is included in selling, general and administrative on the Consolidated Statements of Income.

Rebates or administrative fees are offered to certain wholesale customers, group purchasing organizations and end-user customers, consistent with pharmaceutical industry practices. Settlement of rebates and fees may generally occur from one to 15 months from the date of sale. We provide a provision for rebates at the time of sale based on contracted rates and historical redemption rates. Assumptions used to establish the provision include level of wholesaler inventories, contract sales volumes and average contract pricing. We regularly review the information related to these estimates and adjust the provision accordingly.

Chargeback accruals are based on the differentials between product acquisition prices paid by wholesalers and lower government contract pricing paid by eligible customers covered under federally qualified programs. Distributor service fee accruals are based on contractual fees to be paid to the wholesale distributor for services provided. TRICARE is a health care program of the U.S. Department of Defense

41

Table of Contents

Military Health System that provides civilian health benefits for military personnel, military retirees and their dependents. TRICARE rebate accruals are based on estimated Department of Defense eligible sales multiplied by the TRICARE rebate formula.

See Critical Accounting Estimates and Significant Accounting Policies in Note 1 of the Notes to the Consolidated Financial Statements included in our 2010 Annual Report on Form 10-K for further discussion of gross to net sales accruals.

Gross to net sales accruals and the balance in the related allowance accounts for the three-month periods ended September 30, 2011 and 2010 were as follows:

(In thousands $) 2011	Returns and Allowances	Discounts	Government Rebates	Chargebacks and Distributor Service Fees	Total
Balance at June 30, 2011	$ 4,008	$ 14,642	$ 120,188	$ 48,834	$ 187,672
Allowances for sales during 2011	1,599	19,261	42,651	48,984	112,495
Credits/deductions issued for prior year sales	(1,577)	(681)	(2,763)	(2,902)	(7,923)
Credits/deductions issued for sales during 2011	(408)	(15,611)	(33,635)	(44,893)	(94,547)
Balance at September 30, 2011	$ 3,622	$ 17,611	$ 126,441	$ 50,023	$ 197,697

(In thousands $) 2010	Returns and Allowances	Discounts	Government Rebates	Chargebacks and Distributor Service Fees	Total