

CELGENE CORP /DE/  
Form 10-Q  
May 06, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark one)**

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

**For the quarterly period ended March 31, 2009  
OR**

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

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

**Commission File Number 0-16132**

**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 ☒ No ☐

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 ☐ No ☐

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 ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

At April 29, 2009, 460,288,544 shares of Common Stock, par value \$.01 per share, were outstanding.



**CELGENE CORPORATION**  
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**CELGENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**(Dollars in thousands, except per share amounts)**

	<b>Three-Month Periods Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Revenue:		
Net product sales	\$ 576,232	\$ 431,374
Collaborative agreements and other revenue	2,244	4,768
Royalty revenue	26,577	26,455
Total revenue	605,053	462,597
Expenses:		
Cost of goods sold (excluding amortization of acquired intangible assets)	64,299	44,724
Research and development	181,248	156,877
Selling, general and administrative	173,440	140,451
Amortization of acquired intangible assets	23,625	9,842
Acquired in-process research and development		1,740,000
Total expenses	442,612	2,091,894
Operating income (loss)	162,441	(1,629,297)
Other income and expense:		
Interest and investment income, net	17,453	29,623
Equity in losses of affiliated companies	771	5,079
Interest expense	464	2,210
Other income, net	32,610	922
Income (loss) before income taxes	211,269	(1,606,041)
Income tax provision	48,386	35,047
Net income (loss)	\$ 162,883	\$ (1,641,088)
Net income (loss) per common share:		
Basic	\$ 0.35	\$ (3.98)
Diluted	\$ 0.35	\$ (3.98)
Weighted average shares (in thousands):		
Basic	459,583	412,263

Diluted

468,105

412,263

See accompanying Notes to Unaudited Consolidated Financial Statements

**Table of Contents****CELGENE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS****(Unaudited)****(Dollars in thousands, except per share amounts)**

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 953,705	\$ 1,092,386
Marketable securities available for sale	1,439,640	1,129,705
Accounts receivable, net of allowances of \$11,434 and \$9,391 at March 31, 2009 and December 31, 2008, respectively	339,902	312,243
Inventory	97,255	100,176
Deferred income taxes	18,200	16,415
Other current assets	173,801	190,441
Total current assets	3,022,503	2,841,366
Property, plant and equipment, net	251,114	248,971
Investment in affiliated companies	18,685	18,392
Intangible assets, net	407,681	434,764
Goodwill	586,326	588,822
Other assets	320,083	312,955
Total assets	\$ 4,606,392	\$ 4,445,270
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 60,579	\$ 53,859
Accrued expenses	271,130	306,120
Income taxes payable	13,026	51,162
Current portion of deferred revenue	1,860	1,419
Other current liabilities	69,633	114,688
Total current liabilities	416,228	527,248
Deferred revenue, net of current portion	3,125	3,127
Non-current income taxes payable	366,980	358,578
Other non-current liabilities	64,980	64,989
Total liabilities	851,313	953,942

**Commitments and Contingencies**



**Stockholders' Equity:**

Preferred stock, \$.01 par value per share, 5,000,000 shares authorized; none outstanding at March 31, 2009 and December 31, 2008, respectively		
Common stock, \$.01 par value per share, 575,000,000 shares authorized; issued 464,107,256 and 463,274,296 shares at March 31, 2009 and December 31, 2008, respectively	4,641	4,633
Common stock in treasury, at cost; 4,000,498 and 4,144,667 shares at March 31, 2009 and December 31, 2008, respectively	(151,706)	(157,165)
Additional paid-in capital	5,272,944	5,180,397
Accumulated deficit	(1,246,110)	(1,408,993)
Accumulated other comprehensive loss	(124,690)	(127,544)
Total stockholders' equity	3,755,079	3,491,328
Total liabilities and stockholders' equity	\$ 4,606,392	\$ 4,445,270

See accompanying Notes to Unaudited Consolidated Financial Statements

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**CELGENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(Dollars in thousands)**

	<b>Three-Month Periods Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Net income (loss)	\$ 162,883	\$ (1,641,088)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of long-term assets	9,521	7,497
Amortization of intangible assets	23,762	9,942
Allocation of pre-paid royalties	7,844	
Provision for accounts receivable allowances	1,242	2,046
Deferred income taxes	(11,681)	(392)
Acquired in-process research and development		1,740,000
Share-based compensation expense	32,421	21,276
Equity in losses of affiliated companies	771	5,079
Share-based employee benefit plan expense	1,773	2,135
Unrealized change in value of foreign currency forward contracts	(15,485)	817
Other, net	(3,531)	(770)
Change in current assets and liabilities, excluding the effect of acquisition:		
Accounts receivable	(30,931)	(38,147)
Inventory	(2,564)	(7,235)
Other operating assets	(3,124)	(4,362)
Accounts payable and other operating liabilities	(18,550)	(48,657)
Income tax payable	(27,724)	14,548
Deferred revenue	490	871
Net cash provided by operating activities	127,117	63,560
Cash flows from investing activities:		
Proceeds from sales of marketable securities available for sale	412,606	563,272
Purchases of marketable securities available for sale	(704,613)	(194,629)
Payments for acquisition of business, net of cash acquired		(746,009)
Capital expenditures	(20,974)	(18,149)
Investment in affiliated companies	(1,064)	(1,339)
Purchases of investment securities	(750)	(4,762)
Other	3,333	8,275
Net cash used in investing activities	(311,462)	(393,341)

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Cash flows from financing activities:

Net proceeds from exercise of common stock options and warrants	11,860	23,249
Excess tax benefit from share-based compensation arrangements	44,751	12,303
Net cash provided by financing activities	56,611	35,552
Effect of currency rate changes on cash and cash equivalents	(10,947)	14,081
Net decrease in cash and cash equivalents	(138,681)	(280,148)
Cash and cash equivalents at beginning of period	1,092,386	1,218,273
Cash and cash equivalents at end of period	\$ 953,705	\$ 938,125

See accompanying Notes to Unaudited Consolidated Financial Statements

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**CELGENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
**(Unaudited)**  
**(Dollars in thousands)**

	<b>Three-Month Periods Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
Supplemental schedule of non-cash investing and financing activity:		
Change in net unrealized loss on marketable securities available for sale	\$ (16)	\$ 91,226
Matured shares tendered in connection with stock option exercises	\$	\$ (1,554)
Conversion of convertible notes	\$	\$ 43
Supplemental disclosure of cash flow information:		
Interest paid	\$	\$ 1,067
Income taxes paid	\$ 42,491	\$ 528
See accompanying Notes to Unaudited Consolidated Financial Statements		

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**CELGENE CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

(In all accompanying tables, amounts of dollars expressed in thousands,  
except per share amounts, unless otherwise indicated)

**1. Nature of Business and Summary of Significant Accounting Policies**

**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's commercial stage products include REVLIMID®, THALOMID® (inclusive of Thalidomide Pharmion™, subsequent to the acquisition of Pharmion Corporation, or Pharmion), VIDAZA® and FOCALIN®. ALKERAN® was licensed from GlaxoSmithKline, or GSK, and sold under the Celgene label through March 31, 2009, the conclusion of the ALKERAN® license with GSK. FOCALIN® is sold exclusively to Novartis Pharma AG, or Novartis. The Company also derives revenues from a licensing agreement with Novartis, which entitles it to royalties on FOCALIN XR® and the entire RITALIN® family of drugs, and sales of bio-therapeutic products and services through the Company's Cellular Therapeutics subsidiary.

The accompanying unaudited consolidated financial statements have been prepared from the books and records of the Company pursuant to U.S. generally accepted accounting principles for interim information and the rules and regulations of the Securities and Exchange Commission for interim reporting. Pursuant to such rules and regulations, certain information and footnote disclosures normally included in complete annual financial statements have been condensed or omitted. The consolidated financial statements include the accounts of Celgene Corporation and its subsidiaries. All intercompany transactions and balances have been eliminated. Investments in limited partnerships and interests in which 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. Certain immaterial reclassifications have been made to the prior period consolidated financial statements in order to conform to the current period presentation. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, or the 2008 Annual Report on Form 10-K.

The preparation of the 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 financial statements include all normal and recurring adjustments considered necessary for a fair presentation of these interim consolidated financial statements.

**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 2008 Annual Report on Form 10-K.

**New Accounting Pronouncements:** In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 157, "Fair Value Measurements," or SFAS 157, which establishes a framework for measuring fair value and expands disclosures about fair value measurements. The FASB partially deferred the effective date of SFAS 157 for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. The Company's adoption of SFAS 157 related to non-financial assets beginning January 1, 2009 did not have a material impact on the Company's consolidated financial statements.

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**CELGENE CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In December 2007, the FASB ratified Emerging Issues Task Force, or EITF, Issue No. 07-1, Accounting for Collaborative Arrangements Related to the Development and Commercialization of Intellectual Property, or EITF 07-1, which provides guidance on how the parties to a collaborative agreement should account for costs incurred and revenue generated on sales to third parties, how sharing payments pursuant to a collaboration agreement should be presented in the income statement and certain related disclosure requirements. EITF 07-1 was effective for the Company beginning January 1, 2009 on a retrospective basis and did not have any impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, or SFAS 141R, which replaces FASB Statement No. 141, Business Combinations, and requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. SFAS 141R amended SFAS No. 109, Accounting for Income Taxes, or SFAS 109, and FASB Interpretation No., or FIN, 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, or FIN 48. Previously, SFAS 109 and FIN 48, respectively, generally required post-acquisition adjustments to a business combination related deferred tax asset valuation allowance and liabilities related to uncertain tax positions to be recorded as an increase or decrease to goodwill. SFAS 141R does not permit this accounting and generally will require any such changes to be recorded in current period income tax expense. Thus, after SFAS 141R is adopted, all changes to valuation allowances and liabilities related to uncertain tax positions from an acquisition (whether the combination was accounted for under SFAS 141 or SFAS 141R) must be recognized in current period income tax expense. SFAS 141R was effective for the Company beginning January 1, 2009 and the Company will account for future business combinations in accordance with its provisions.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51, or SFAS 160, which changes the accounting for and reporting of noncontrolling interests (formerly known as minority interests) in consolidated financial statements. SFAS 160 was effective for the Company beginning January 1, 2009 and did not have any impact on the Company's consolidated financial statements. In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, or SFAS 161, which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. SFAS 161 was effective for the Company beginning January 1, 2009. See Note 6 for expanded disclosures required by SFAS 161.

In April 2008, the FASB issued FASB Staff Position, or FSP, No. FAS 142-3, Determination of the Useful Life of Intangible Assets, or FSP FAS 142-3. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP FAS 142-3 was effective for the Company beginning January 1, 2009 and did not have any impact on the Company's consolidated financial statements.

In May 2008, the FASB issued FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), or FSP APB 14-1, which requires separate accounting for the debt and equity components of convertible debt issuances that have a cash settlement feature permitting settlement partially or fully in cash upon conversion. A component of such debt issuances representative of the approximate fair value of the conversion feature at inception should be bifurcated and recorded to equity, with the resulting debt discount amortized to interest expense in a manner that reflects the issuer's nonconvertible, unsecured debt borrowing rate. The requirements for separate accounting must be applied retrospectively to previously issued convertible debt issuances as well as prospectively to newly issued convertible debt issuances, negatively affecting both net income and earnings per share, in financial statements issued for fiscal years beginning after December 15, 2008. Since the Company's past convertible debt issuance did not include a cash settlement feature, the adoption of FSP APB 14-1 did not have any impact on its consolidated financial statements.



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**CELGENE CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In June 2008, the FASB issued FSP EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, or FSP EITF 03-6-1. The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS No. 128, *Earnings per Share*. The FSP requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per share. FSP EITF 03-6-1 was effective for the Company beginning January 1, 2009. Since the Company's past share-based payment awards did not include non-forfeitable rights to dividends or dividend equivalents, the adoption of FSP EITF 03-6-1 did not have any impact on its consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-6, *Equity Method Investment Accounting Considerations*, or EITF 08-6, which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 was effective for the Company beginning January 1, 2009 and did not have any impact on the Company's consolidated financial statements.

In November 2008, the FASB ratified EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets*, or EITF 08-7, which clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 was effective for the Company beginning January 1, 2009 and the Company will account for defensive intangible assets acquired in future business combinations in accordance with its provisions.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, or FSP FAS 157-4. FSP FAS 157-4 amends SFAS 157 and provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly for fair value measurements. This FSP shall be applied prospectively with retrospective application not permitted. This FSP shall be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity early adopting this FSP must also early adopt FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, or FSP FAS 115-2 and FAS 124-2. Additionally, if an entity elects to early adopt either FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, or FSP FAS 107-1 and APB 28-1, or FSP FAS 115-2 and FAS 124-2, it must also elect to early adopt this FSP. The Company did not early adopt FSP FAS 157-4 and is currently evaluating the impact that the adoption of FSP FAS 157-4 will have, if any, on its consolidated financial statements.



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**CELGENE CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2. This FSP amends SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, SFAS 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets, to make the other-than-temporary impairments guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This FSP will replace the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. This FSP provides increased disclosure about the credit and noncredit components of impaired debt securities that are not expected to be sold and also requires increased and more frequent disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. Although this FSP does not result in a change in the carrying amount of debt securities, it does require that the portion of an other-than-temporary impairment not related to a credit loss for a held-to-maturity security be recognized in a new category of other comprehensive income and be amortized over the remaining life of the debt security as an increase in the carrying value of the security. This FSP shall be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4. Also, if an entity elects to early adopt either FSP FAS 157-4 or FSP FAS 107-1 and APB 28-1, the entity also is required to early adopt this FSP. The Company did not early adopt FSP FAS 115-2 and FAS 124-2 and is currently evaluating the impact that the adoption of FSP FAS 115-2 and FAS 124-2 will have, if any, on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1. This FSP amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this FSP, fair values for these assets and liabilities were only disclosed annually. This FSP applies to all financial instruments within the scope of SFAS 107 and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. This FSP shall be effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt this FSP only if it also elects to early adopt FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2. This FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The Company did not early adopt FSP FAS 107-1 and APB 28-1 and is currently evaluating the impact that the adoption of FSP FAS 107-1 and APB 28-1 will have, if any, on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or FSP FAS 141R-1. FSP FAS 141R-1 amends and clarifies SFAS No. 141R to address application issues associated with initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141R-1 was effective for the Company beginning January 1, 2009 and the Company will account for assets or liabilities arising from contingencies acquired in future business combinations in accordance with its provisions.

Table of Contents**CELGENE CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Acquisition of Pharmion Corporation**

On March 7, 2008, Celgene acquired all of the outstanding common stock and stock options of Pharmion in a transaction accounted for under the purchase method of accounting for business combinations. Celgene paid a combination of \$920.8 million in cash and approximately 30.8 million shares of Celgene common stock valued at \$1.749 billion to Pharmion shareholders. The operating results of Pharmion are included in the Company's consolidated financial statements from the date of acquisition.

The following table provides unaudited pro forma financial information for the quarter ended March 31, 2008 as if the acquisition of Pharmion had occurred as of the beginning of the quarter presented. For the quarter presented, the unaudited pro forma results include the nonrecurring charge for in-process research and development, or IPR&D, amortization of acquired intangible assets, elimination of expense and income related to pre-acquisition agreements with Pharmion, reduced interest and investment income attributable to cash paid for the acquisition and the amortization of the inventory step-up to fair value of acquired Pharmion product inventories. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings that may result from the combined operations of Celgene and Pharmion. Accordingly, these unaudited pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the combined company that would have been achieved had the acquisition occurred at the beginning of the period presented, nor are they intended to represent or be indicative of future results of operations.

	Three-Month Period Ended March 31, 2008
Total revenue	\$ 483,728
Net loss	\$ (1,650,543)
Net loss per common share: basic and diluted	\$ (4.09)

**3. Restructuring**

The March 7, 2008 acquisition cost of Pharmion included \$58.6 million in restructuring liabilities primarily related to the planned exit of certain business activities, involuntary terminations and the relocation of certain Pharmion employees. The remaining balance of these restructuring liabilities totaled \$27.6 million as of December 31, 2008. The following table summarizes changes to the restructuring liabilities during the three-month period ended March 31, 2009:

	Balance December 31, 2008	Payments	Adjustments <sup>(1)</sup>	Balance March 31, 2009	Cumulative Payments
Severance costs	\$ 1,654	\$ (1,229)	\$	\$ 425	\$ 17,013
Contract termination fees	22,485	(150)	(434)	21,901	8,816
Facility closing costs	2,664	(572)		2,092	3,503
Other	834	(342)		492	3,958
Total restructuring costs	\$ 27,637	\$ (2,293)	\$ (434)	\$ 24,910	\$ 33,290

<sup>(1)</sup> Purchase  
accounting now

closed as of  
March 31, 2009.

The Company expects to finalize the contractual terms of all restructuring activities during 2009.

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Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income adjusted to add back the after-tax amount of interest recognized in the period associated with any convertible debt issuance that may be dilutive by the weighted-average number of common shares outstanding during the period increased to include all additional common shares that would have been outstanding as if the outstanding convertible debt was converted into shares of common stock and assuming potentially dilutive common shares, resulting from option exercises, had been issued and any proceeds thereof used to repurchase common stock at the average market price during the period. The assumed proceeds used to repurchase common stock are the sum of the amount to be paid to the Company upon exercise of options, the amount of compensation cost attributed to future services and not yet recognized and, if applicable, the amount of excess income tax benefit that would be credited to paid-in capital upon exercise. As of their maturity date, June 1, 2008, substantially all of the Company's convertible notes were converted into shares of common stock.

	Three-Month Periods Ended March 31,	
	2009	2008
Net income (loss) for basic and diluted computation	\$ 162,883	\$ (1,641,088)
Weighted average shares:		
Basic	459,583	412,263
Effect of dilutive securities:		
Options, warrants and other incentives	8,522	
Diluted	468,105	412,263
Net income (loss) per share:		
Basic	\$ 0.35	\$ (3.98)
Diluted	\$ 0.35	\$ (3.98)

The total number of potential common shares excluded from the diluted earnings per share computation because their inclusion would have been anti-dilutive was 17,662,587 and 50,546,244 shares for the three-month periods ended March 31, 2009 and 2008, respectively. All of the potentially dilutive securities for the three-month period ended March 31, 2008 were determined to be anti-dilutive due to the net loss reported.

**Table of Contents****CELGENE CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Comprehensive Income (Loss)**

The components of comprehensive income (loss) consist of net income (loss), changes in pension liability, the after-tax effects of changes in net unrealized gains (losses) on marketable securities classified as available-for-sale, net unrealized gains (losses) related to cash flow hedges and changes in foreign currency translation adjustments.

	Three-Month Periods Ended March 31,	
	2009	2008
Net income (loss)	\$ 162,883	\$ (1,641,088)
Other comprehensive income (loss):		
Marketable securities:		
Net unrealized gains on marketable securities available for sale, net of tax	1,827	6,967
Reversal of unrealized gains on Pharmion investment, net of tax		(62,806)
Reclassification adjustment for losses included in net income (loss)	(4,967)	(1,289)
Total other comprehensive losses related to marketable securities available for sale, net of tax	(3,140)	(57,128)
Net unrealized gains related to cash flow hedges, net of tax	52,759	
Currency translation adjustments	(46,765)	25,724
Total other comprehensive income (loss) items	2,854	(31,404)
Comprehensive income (loss)	\$ 165,737	\$ (1,672,492)

**6. 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 March 31, 2009 and the valuation techniques the Company utilized to determine such fair value. In general, 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 of U.S. Treasury fixed rate securities, U.S. government-sponsored agency fixed rate securities, U.S. government-sponsored agency mortgage-backed fixed rate obligations, Federal Deposit Insurance Corporation, or FDIC, guaranteed fixed rate corporate debt, forward currency contracts and warrants for the purchase of equity 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 a private cash fund with a carrying value calculated pursuant to the amortized cost method, which values each investment at its acquisition cost as adjusted for amortization of premium or accumulation of discount over the investment's remaining life, net of impairment.

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	Balance at March 31, 2009	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	\$ 1,439,640	\$ 510	\$ 1,430,812	\$ 8,318
Cash equivalents	29,840		29,840	
Forward currency contracts	11,231		11,231	
	\$ 1,480,711	\$ 510	\$ 1,471,883	\$ 8,318

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**CELGENE CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Balance at December 31, 2008	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	\$ 1,129,705	\$ 407	\$ 1,118,244	\$ 11,054
Forward currency contracts	(57,486)		(57,486)	
	\$ 1,072,219	\$ 407	\$ 1,060,758	\$ 11,054

The following table is a roll-forward of the fair value of the private cash fund, determined by Level 3 (significant unobservable) inputs:

	Three-Month Periods Ended March 31,	
	2009	2008
Balance at beginning of period	\$ 11,054	\$ 37,038
Total gains or losses (realized and unrealized)		
Settlements	(2,736)	(15,299)
Transfers in and/or out of Level 3		
Balance at end of period	\$ 8,318	\$ 21,739

**Foreign Currency Forward Contracts:** Effective January 1, 2009, the Company adopted SFAS 161 and enhanced its disclosures for derivative instruments and hedging activities by providing additional information about its objectives for using derivative instruments, the level of derivative activity the Company engages in, as well as how derivative instruments and related hedged items affect its financial position and performance. Since SFAS 161 requires only additional disclosures concerning derivatives and hedging activities, the adoption of SFAS 161 did not affect the presentation of the Company's financial position or results of operations.

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 March 31, 2009 and December 31, 2008 had settlement dates within 24 months. These foreign currency forward contracts are designated as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, or SFAS 133, and, accordingly, 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 in other income, net.





**Table of Contents****CELGENE CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Foreign currency forward contracts entered into to hedge forecasted revenue and expenses were as follows:

Foreign Currency	Notional Amount	
	March 31, 2009	December 31, 2008
Euro	\$ 587,789	\$ 704,198
Yen	23,829	
Total	\$ 611,618	\$ 704,198

The notional settlement amounts of the foreign currency forward contracts outstanding as of March 31, 2009 and December 31, 2008 were approximately \$611.6 million and \$704.2 million, respectively. 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. As of March 31, 2009 and December 31, 2008, credit risk did not materially change the fair value of the Company's foreign currency forward contracts.

The Company recognized reductions in net product sales for the settlement of certain effective cash flow hedge instruments of \$0.8 million for the three-month period ended March 31, 2009 and no reductions for the three-month period ended March 31, 2008. These settlements were recorded in the same period as the related forecasted sales occurred. The Company recognized reductions in research and development expenses for the settlement of certain effective cash flow hedge instruments of \$1.0 million for the three-month period ended March 31, 2009 and no reductions for the three-month period ended March 31, 2008. These settlements were recorded in the same period as the related forecasted research and development expenses occurred. Changes in time value, which the Company excluded from the hedge effectiveness assessment for the three-month period ended March 31, 2009, were included in other income, net.

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 under SFAS 133 and, accordingly, any changes in their fair value are recognized in other income, net in the current period. The aggregate notional amount of the foreign currency forward non-designated hedging contracts outstanding at March 31, 2009 and December 31, 2008 were approximately \$80.6 million and \$56.6 million, respectively.

**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 March 31, 2009 and December 31, 2008:

Instrument	March 31, 2009			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency forward contracts designated as hedging instruments under SFAS 133	Other current assets	\$ 3,934	Other current liabilities	\$ 5,820
Foreign currency forward contracts not designated as hedging instruments under SFAS 133	Other current assets	\$ 13,117	Other current liabilities	\$
Total		\$ 17,051		\$ 5,820

Instrument	December 31, 2008			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency forward contracts designated as hedging instruments under SFAS 133	Other current assets	\$ 1,552	Other current liabilities	\$ 50,000
Foreign currency forward contracts not designated as hedging instruments under SFAS 133	Other current assets	\$ 30	Other current liabilities	\$ 9,068
Total		\$ 1,582		\$ 59,068

Table of Contents**CELGENE CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the effect of derivative instruments designated as hedging instruments under SFAS 133 on the consolidated statements of operations for the three months ended March 31, 2009 and 2008:

For the Three Months Ended March 31, 2009					
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	\$ 53,025(1)	Net product sales Research and development	\$ (750)	Other income, net	\$ (4,610)(2)
			\$ 1,016		

(1) Losses of \$5,194 are expected to be reclassified from Accumulated OCI into operations in the next 12 months.

(2) Hedge ineffectiveness was insignificant and included with the amount excluded from effectiveness testing.

For the Three Months Ended March 31, 2008

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)
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Foreign currency forward contracts      \$                      N/A      \$                      N/A      \$

The following table summarizes the effect of derivative instruments not designated as hedging instruments under SFAS 133 on the consolidated statements of operations for the three months ended March 31, 2009 and 2008:

Instrument	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative Three Month periods Ended March 31, 2009	Amount of Gain/(Loss) Recognized in Income on Derivative Three Month periods Ended March 31, 2008
Foreign currency forward contracts	Other income, net	\$              15,948	\$              (580)

**Table of Contents****CELGENE CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Cash, Cash Equivalents and Marketable Securities Available-for-Sale**

Money market funds of \$538.9 million and \$691.0 million at March 31, 2009 and December 31, 2008, 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 March 31, 2009 and December 31, 2008 were as follows:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
March 31, 2009				
U.S. Treasury securities	\$ 374,937	\$ 5,839	\$ (5)	\$ 380,771
U.S. government-sponsored agency securities	489,652	11,172	(82)	500,742
U.S. government-sponsored agency MBS	392,452	5,810	(649)	397,613
FDIC guaranteed corporate debt	150,826	932	(72)	151,686
Private cash fund shares	8,318			8,318
Marketable equity securities	407	103		510
Total available-for-sale marketable securities	\$ 1,416,592	\$ 23,856	\$ (808)	\$ 1,439,640

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
December 31, 2008				
U.S. Treasury securities	\$ 263,541	\$ 8,394	\$	\$ 271,935
U.S. government-sponsored agency securities	571,072	16,985	(212)	587,845
U.S. government-sponsored agency MBS	229,847	3,241	(429)	232,659
FDIC guaranteed corporate debt	25,546	265	(6)	25,805
Private cash fund shares	11,054			11,054
Marketable equity securities	407			407
Total available-for-sale marketable securities	\$ 1,101,467	\$ 28,885	\$ (647)	\$ 1,129,705

U.S. government-sponsored agency securities include general unsecured obligations of the issuing agency. U.S. government-sponsored mortgage-backed securities, or MBS, include fixed rate asset-backed securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. FDIC guaranteed corporate debt include obligations of bank holding companies that meet certain criteria set forth under the Temporary Liquidity Guaranty Program, or TLGP, and are unconditionally guaranteed by the FDIC. Private cash fund shares are investments in enhanced cash commingled funds. Net unrealized gains in U.S. Treasury fixed rate securities, U.S. government-sponsored agency fixed rate securities and U.S. government-sponsored agency mortgage-backed fixed rate obligations, primarily reflect the impact of decreased interest rates at March 31, 2009 and December 31, 2008.

**Table of Contents****CELGENE CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the three-month period ended March 31, 2008, the Company determined that certain securities had sustained an other-than-temporary impairment partly due to a reduction in future estimated cash flows and an adverse change in an investee's business operations. The Company recognized impairment losses of \$2.5 million, which was recorded in interest and investment income, net.

Duration periods of available-for-sale debt securities were as follows at March 31, 2009:

	Amortized Cost	Fair Value
Duration of one year or less	\$ 270,233	\$ 273,684
Duration of one through three years	1,030,089	1,045,233
Duration of three through five years	99,393	102,146
Duration of over five years	16,470	18,067
Total	\$ 1,416,185	\$ 1,439,130

**8. Inventory**

A summary of inventories by major category at March 31, 2009 and December 31, 2008 follows:

	March 31, 2009	December 31, 2008
Raw materials	\$ 16,371	\$ 16,910
Work in process	35,288	33,170
Finished goods	45,596	50,096
Total	\$ 97,255	\$ 100,176

**9. Investment in Affiliated Companies**

A summary of the Company's equity investment in affiliated companies follows:

	March 31, 2009	December 31, 2008
Investment in Affiliated Companies		
Investment in affiliated companies <sup>(1)</sup>	\$ 15,494	\$ 14,862
Excess of investment over share of equity <sup>(2)</sup>	3,191	3,530
Investment in affiliated companies	\$ 18,685	\$ 18,392

	Three-Month Periods Ended March 31,	
	2009	2008
Equity in Losses of Affiliated Companies		
Affiliated companies losses <sup>(1)</sup>	\$ 771	\$ 5,079

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

- (2) Consists of goodwill.

Additional equity investments totaling \$1.1 million were made during the three-month period ended March 31, 2009. The three-month period ended March 31, 2008 included other-than-temporary impairment losses of \$4.4 million. These impairment losses were based on an evaluation of several factors, including a decrease in fair value of the equity investment below its cost.

Table of Contents**CELGENE CORPORATION AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Intangible Assets and Goodwill**

**Intangible Assets:** The Company's intangible assets consist of developed product rights from the Pharmion acquisition, contract-based licenses, technology and an acquired workforce. Remaining amortization periods related to these categories range from 3 to 12 years. A summary of intangible assets by category follows:

	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net	Weighted Average Life (Years)
March 31, 2009				
Acquired developed product rights	\$ 530,000	\$ (125,956)	\$ 404,044	6.5
License	4,250	(998)	3,252	13.8
Technology	280	(64)	216	12.6
Acquired workforce	316	(147)	169	5.0
Total	\$ 534,846	\$ (127,165)	\$ 407,681	6.5

	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net	Weighted Average Life (Years)
December 31, 2008				
Acquired developed product rights	\$ 533,339	\$ (102,331)	\$ 431,008	6.5
License	4,250	(922)	3,328	13.8
Technology	290	(59)	231	12.6
Acquired workforce	337	(140)	197	5.0
Total	\$ 538,216	\$ (103,452)	\$ 434,764	6.5

The decrease in gross carrying value of intangibles at March 31, 2009 compared to December 31, 2008 was primarily due to elimination of the \$3.3 million intangible related to RIMIFON®, which was obtained in the Pharmion acquisition and sold in March of 2009.

Amortization of intangible assets was \$23.8 million and \$9.9 million for the three-month periods ended March 31, 2009 and 2008, respectively. Amortization expense for the three-month period ended March 31, 2008 only included amortization of the intangible assets related to the Pharmion acquisition for the period subsequent to the March 7, 2008 acquisition date. 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 \$83.8 million for the year ending December 31, 2009 and approximately \$64.4 million for each of the years ending December 31, 2010 through 2013.

**Goodwill:** At March 31, 2009, the Company's goodwill related to the March 7, 2008 acquisition of Pharmion and the October 21, 2004 acquisition of Penn T Limited. The goodwill related to the Pharmion acquisition reflects the final allocation of the Pharmion purchase price.

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

Balance at December 31, 2008	\$ 588,822
Tax benefit on the exercise of Pharmion converted stock options	(118)
Adjustments to Pharmion assets acquired	(444)
Adjustments to Pharmion restructuring liabilities	(434)
Foreign currency translation	(1,500)



Balance at March 31, 2009	\$ 586,326
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**CELGENE CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. Share-Based Compensation**

The following table summarizes the components of share-based compensation expense in the consolidated statements of operations for the three-month periods ended March 31, 2009 and 2008:

	Three-Month Periods Ended March 31,	
	2009	2008
Cost of good sold	\$ 971	\$ 528