CELGENE CORP /DE/
Form 10-Q
May 12, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2008
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 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 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer þ Accelerated filer o Non-Accelerated filer o 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 May 5, 2008, 435,866,274 shares of Common Stock, par value $.01 per share, were outstanding.

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

	Three-Month Periods Ended March 31,	
	2008	**2007**
Revenue:		
Net product sales	$ 431,374	$ 269,796
Collaborative agreements and other revenue	4,768	4,804
Royalty revenue	26,455	18,815
Total revenue	462,597	293,415
Expenses:		
Cost of goods sold (excluding amortization expense)	44,724	22,055
Research and development	156,877	79,575
Selling, general and administrative	140,451	105,206
Amortization of acquired intangible assets	9,842	2,215
Acquired in-process research and development	1,740,000	
Total expenses	2,091,894	209,051
Operating (loss) income	(1,629,297)	84,364
Other income and expense:		
Interest and investment income, net	29,623	24,774
Equity in losses of affiliated companies	5,079	1,283
Interest expense	2,210	2,688
Other income, net	922	931
(Loss) income before income taxes	(1,606,041)	106,098
Income tax provision	35,047	48,689
Net (loss) income	$ (1,641,088)	$ 57,409
Net (loss) income per common share:		
Basic	$ (3.98)	$ 0.15
Diluted	$ (3.98)	$ 0.14

Weighted average shares:		
Basic	412,263	377,599
Diluted	412,263	429,306

See accompanying Notes to Consolidated Financial Statements

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

	March 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 938,125	$ 1,218,273
Marketable securities available for sale	1,088,367	1,520,645
Accounts receivable, net of allowances of $5,447 and $4,213 at March 31, 2008 and December 31, 2007, respectively	258,385	167,252
Inventory	96,313	49,076
Deferred income taxes	54,863	20,506
Other current assets	121,211	108,669
Total current assets	2,557,264	3,084,421
Property, plant and equipment, net	227,225	197,428
Investment in affiliated companies	10,682	14,422
Intangible assets, net	530,480	92,658
Goodwill	530,294	39,033
Other assets	55,519	183,322
Total assets	$ 3,911,464	$ 3,611,284
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 64,072	$ 37,876
Accrued expenses	290,670	159,220
Income taxes payable	4,004	4,989
Convertible notes	196,512	196,555
Current portion of deferred revenue	1,307	7,666
Other current liabilities	34,265	26,625
Total current liabilities	590,830	432,931
Deferred revenue, net of current portion	3,061	60,303
Non-current income taxes payable	226,721	211,307
Other non-current liabilities	61,378	62,799

Total liabilities	881,990	767,340
Commitments and Contingencies		
Stockholders Equity:		
Preferred stock, $.01 par value per share, 5,000,000 shares authorized; none outstanding at March 31, 2008 and December 31, 2007, respectively		
Common stock, $.01 par value per share, 575,000,000 shares authorized; issued 439,745,644 and 407,150,694 shares at March 31, 2008 and December 31, 2007, respectively	4,397	4,072
Common stock in treasury, at cost; 4,053,715 and 4,026,116 shares at March 31, 2008 and December 31, 2007, respectively	(151,073)	(149,519)
Additional paid-in capital	4,640,100	2,780,849
(Accumulated deficit) retained earnings	(1,516,428)	124,660
Accumulated other comprehensive income	52,478	83,882
Total stockholders equity	3,029,474	2,843,944
Total liabilities and stockholders equity	$ 3,911,464	$ 3,611,284

See accompanying Notes to Consolidated Financial Statements

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

	Three-Month Periods Ended March 31,	
	2008	**2007**
Cash flows from operating activities:		
Net (loss) income	$ (1,641,088)	$ 57,409
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of long-term assets	7,497	4,698
Amortization of acquired intangible assets	9,942	2,215
Provision for accounts receivable allowances	2,046	3,445
Deferred income taxes	(392)	(9,571)
Acquired In-process research and development	1,740,000	
Share-based compensation expense	21,276	9,573
Equity in losses of affiliated companies	5,079	1,283
Shares issued for employee benefit plans	2,135	1,287
Other, net	47	(711)
Change in current assets and liabilities, excluding the effect of acquisition:		
Accounts receivable	(38,147)	(5,058)
Inventory	(7,235)	(4,790)
Other operating assets	(4,362)	8,616
Accounts payable and accrued expenses	(48,657)	(15,134)
Income tax payable	14,548	37,330
Deferred revenue	871	(795)
Net cash provided by operating activities	63,560	89,797
Cash flows from investing activities:		
Proceeds from sales of marketable securities	563,272	706,204
Purchases of marketable securities available for sale	(194,629)	(1,256,255)
Payments for acquisition of business, net of cash acquired	(746,009)	
Capital expenditures	(18,149)	(10,754)
Investment in affiliated companies	(1,339)	
Purchases of investment securities	(4,762)	(1,406)
Other	8,275	
Net cash used in investing activities	(393,341)	(562,211)
Cash flows from financing activities:		

Net proceeds from exercise of common stock options and warrants	23,249	31,302
Excess tax benefit from share-based compensation arrangements	12,303	19,525
Net cash provided by financing activities	35,552	50,827
Effect of currency rate changes on cash and cash equivalents	14,081	795
Net increase (decrease) in cash and cash equivalents	$ (280,148)	$ (420,792)
Cash and cash equivalents at beginning of period	$ 1,218,273	$ 1,439,415
Cash and cash equivalents at end of period	$ 938,125	$ 1,018,623

See accompanying Notes to Consolidated Financial Statements

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

	Three-Month Periods Ended March 31,	
	2008	**2007**
Supplemental schedule of non-cash investing and financing activity:		
Change in net unrealized loss (gain) on marketable securities available for sale	$ 91,226	$ 2,259
Matured shares tendered in connection with stock option exercises	$ (1,554)	$ (963)
Conversion of convertible notes	$ 43	$ 6
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,067	$ 1,750
Income taxes paid	$ 528	$

See accompanying Notes to Consolidated Financial Statements

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

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. On March 7, 2008, the Company acquired all of the outstanding common stock and stock options of Pharmion Corporation, or Pharmion, which prior to the acquisition was a global biopharmaceutical company that acquired, developed and commercialized innovative products for the treatment of hematology and oncology patients for $2.67 billion in cash and Celgene common stock. The Company s commercial stage products included REVLIMID®, THALOMID®, VIDAZA®, ALKERAN® and FOCALIN®. FOCALIN® is sold exclusively to Novartis Pharma AG, or Novartis. The Company also derived revenues from a licensing agreement with Novartis, which entitled it to royalties on FOCALIN XR® and the entire RITALIN® family of drugs, and sales of bio-therapeutic products and services through its 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 reporting on Form 10-Q. 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 inter-company 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 reclassifications have been made to the prior period s consolidated financial statements in order to conform to the current period s 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, 2007. 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.

Recent Accounting Principles: In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 157, Fair Value Measurements, 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 effective date for financial assets and liabilities that are recognized on a recurring basis was effective beginning January 1, 2008. The Company has determined that its adoption of SFAS 157 on January 1, 2008 for financial assets did not have a material impact on its consolidated financial statements. The Company does not expect the adoption of SFAS 157 related to non-financial assets to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS 159, which provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and highlights the effect of a company s choice to use fair value on its earnings. It also requires a company to display the fair value of those assets and liabilities for which it has chosen to use fair value on the face of the balance sheet. SFAS 159 was effective for the Company beginning January 1, 2008 and did not have a material impact on its consolidated financial statements.

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MARCH 31, 2008

In June 2007, the FASB ratified Emerging Issues Task Force, or EITF, Issue No. 07-3, Accounting for Non-Refundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities, or EITF 07-3, which provides that non-refundable advance payments for future research and development activities should be deferred and capitalized until the related goods are delivered or the related services are performed. EITF 07-3 was effective for the Company on a prospective basis beginning January 1, 2008 and did not have a material impact on its consolidated financial statements.

In December 2007, the FASB ratified 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 will be effective for the Company beginning January 1, 2009 on a retrospective basis. The Company is currently evaluating the impact that the adoption of EITF 07-1 will have, if any, on its 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 specified in the Statement. It is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 , or SFAS 160. This Standard changes the accounting for and reporting of noncontrolling interests (formerly known as minority interests) in consolidated financial statements. This Standard is effective January 1, 2009. When implemented, prior periods will be recast for the changes required by SFAS 160. The Company is currently evaluating the impact that the adoption of SFAS 160 will have, if any, on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activites, 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. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the impact that the adoption of SFAS 161 will have, if any, on its consolidated financial statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

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. Under the purchase method of accounting, the assets acquired and liabilities assumed of Pharmion are recorded as of the acquisition date, at their respective fair values, and consolidated with those of Celgene. The reported consolidated financial condition and results of operations of Celgene after completion of the acquisition reflect these fair values. Pharmion s results of operations are included in the Company s consolidated financial statements from the date of acquisition.

Celgene paid a total purchase price of $2.761 billion to acquire all of the outstanding Pharmion common shares and stock options. Each Pharmion stockholder received $25.00 in cash plus 0.8367 shares of Celgene common shares for a total payment of $2.67 billion. The combination of cash and Celgene stock to Pharmion stockholders consisted of $921.0 million in cash and approximately 30.8 million shares of Celgene common stock valued at $1.749 billion. The total purchase price included acquisition-related costs of $25.5 million, the fair value of vested Celgene stock options issued of $44.9 million and the amortized cost of Celgene s investment in Pharmion common shares prior to the acquisition.

Prior to the acquisition, Pharmion was a global biopharmaceutical company that acquired, developed and commercialized innovative products for the treatment of hematology and oncology patients. Celgene acquired Pharmion to enhance its portfolio of therapies for patients with life-threatening illnesses worldwide with the addition of Pharmion s marketed products, and several products in development for the treatment of hematological and solid tumor cancers. By combining this new product portfolio with the Company s existing operational and financial capabilities, Celgene will be able to enlarge its global market share through increased product offerings and expanded clinical, regulatory and commercial capabilities.

(Amounts in thousands)

Purchase Price Summary:

Stock issued at fair value	$ 1,749,222
Cash paid	920,805
Acquisition-related costs	25,448
Fully vested stock options issued	44,924
Pharmion shares previously owned	20,212
Total purchase price paid	$ 2,760,611

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The acquisition was accounted for using the purchase method of accounting for business combinations and the purchase price allocation resulted in the following amounts being allocated to the assets acquired and liabilities assumed at the acquisition date based upon their respective fair values.

(Amounts in thousands)	March 7, 2008
Current assets	$ 340,415
Fixed assets	8,404
Developed product rights	510,986
In-process research and development	1,740,000
Other noncurrent assets	304
Assets acquired	2,600,109
Restructuring	(69,000)
Net deferred taxes	(128,352)
Liabilities assumed	(141,748)
Net assets acquired	2,261,009
Goodwill	499,602
Acquisition cost	$ 2,760,611

The fair value of the acquired identifiable intangible assets consists primarily of developed product rights for the following currently marketed products: Vidaza® IV in the U.S. market, Thalidomide Pharmion in certain foreign markets and other minor commercialized products and was derived using a valuation from an independent third-party valuation firm. It also includes the fair value associated with certain compassionate use rights in Europe. The weighted average amortization period for these assets, in total, is 6.5 years. The weighted average amortization period for compassionate use rights is 1.2 years, while the weighted average amortization period for the developed product rights is 7.1 years.

In-process research and development, or IPR&D, represents compounds under development by Pharmion at the date of acquisition that had not yet achieved regulatory approval for marketing in certain markets or had not yet been completed and have no future alternative use. The $1.74 billion estimated fair value of these intangible assets was derived using the multi-period excess-earnings method, a form of the income approach, as determined by a valuation from an independent third-party valuation firm. The IPR&D primarily related to development and approval initiatives for Vidaza® IV in the E.U. market, Vidaza® Oral in the U.S. and E.U. markets and Thalidomide Pharmion® in the E.U. market. The projected cash flows for valuation purposes were based on key assumptions such as estimates of revenues and operating profits related to the programs considering their stages of development; the time and resources needed to complete the regulatory approval process for the products; and the life of the potential commercialized products and associated risks, including the inherent difficulties and uncertainties in obtaining regulatory approvals.

For Vidaza® IV in the E.U. market, the related future net cash flows were estimated using a risk-adjusted discount rate of 10.0% and an anticipated regulatory approval date in late 2008 with market exclusivity rights expected to continue through 2019. For Vidaza® Oral in the U.S. and E.U., the future net cash flows were estimated using a risk-adjusted discount rate of 11.0% for each market. The anticipated regulatory approval in the E.U. was assumed for 2013 with exclusivity continuing through 2023, and the anticipated regulatory approval in the U.S. was assumed for 2013 with exclusivity continuing through 2018. For Thalidomide Pharmion® in the E.U. market, the future net cash flows were estimated using a risk-adjusted discount rate of 9.5% and an anticipated regulatory approval date in 2008 with exclusivity continuing through 2018.

In accordance with FASB Interpretation No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, the purchase price allocated to IPR&D intangible assets has been expensed to income immediately subsequent to the acquisition because the compounds do not have any alternative future use. This charge is not deductible for tax purposes.

The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition. The amount allocated to goodwill is preliminary and subject to change, depending on the results of the final purchase price allocation. We do not expect any portion of this goodwill to be deductible for tax purposes. The goodwill attributable to the Company s acquisition of Pharmion has been recorded as a noncurrent asset in our Consolidated Balance Sheet and will not be amortized, but is subject to review for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets.

The allocation of the purchase price is subject to finalization of Celgene s management analysis of the fair value of the assets acquired and liabilities assumed of Pharmion as of the acquisition date. The final allocation of the purchase price may result in additional adjustments to the recorded amounts of assets and liabilities and may also result in adjustments to depreciation, amortization and acquired in-process research and development. The final allocation is expected to be completed as soon as practicable but no later than 12 months after the acquisition date.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

Prior to the acquisition, Celgene had licensed exclusive rights relating to the development and commercial use for thalidomide and its distribution system to Pharmion, and also maintained a thalidomide supply agreement with Pharmion. The Company accounted for these arrangements in accordance with EITF Issue No. 04-1, Accounting for Preexisting Relationships between the Parties to a Business Combination. In addition, the Company has valued the reacquired thalidomide-related rights in the valuation of developed product rights described above. Any assets and liabilities that existed between Celgene and Pharmion as of the acquisition date have been eliminated in the accompanying unaudited consolidated financial statements.

The following table provides pro forma financial information for the three-month periods ended March 31, 2008 and 2007 as if the acquisition had occurred as of the beginning of each period presented. For each period presented, the unaudited pro forma results include the nonrecurring charge for 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 consolidation of the 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 each period presented, nor are they intended to represent or be indicative of future results of operations.

	March 31,	
(Amounts in thousands, except per share amounts)	2008	2007
Net sales	$ 483,728	$ 329,883
Net loss	(1,650,543)	(1,708,655)
Net loss per common share: basic and diluted	$ (4.09)	$ (3.75)

3. Restructuring

The acquisition cost of Pharmion includes liabilities related primarily to the planned exit of certain business activities, involuntary terminations and the relocation of certain Pharmion employees. The cost of these restructuring activities is estimated to be approximately $69.0 million, which includes employee severance costs of $16.8 million, early lease and contract termination costs of $45.0 million, facility closing costs of $3.8 million and various other costs primarily associated with exiting certain business activities of Pharmion. The Company is in the process of initiating the above-noted actions included in the restructuring plan and expects that all actions will be substantially completed within one year of the effective date of the acquisition.

The following table summarizes the charges recorded for restructuring at the March 7, 2008 effective date of the Pharmion acquisition. No payments have been made as of March 31, 2008.

(Amounts in thousands)	
Severance costs	$ 16,800
Contract termination fees	45,000
Facility closing costs	3,800
Other	3,400
Total restructuring costs	$ 69,000

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

4. Earnings Per Share (EPS)

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.

	Three-Month Periods Ended March 31,
(Amounts in thousands except	