

CELGENE CORP /DE/  
Form 10-Q  
October 27, 2016

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 September 30, 2016

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 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  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 (Do not check if a smaller reporting company)  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 October 21, 2016, 775,203,498 shares of Common Stock, par value \$.01 per share, were outstanding.

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CELGENE CORPORATION

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

CELGENE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share amounts)

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Net product sales	\$2,968.6	\$2,312.6	\$8,207.8	\$6,621.9
Other revenue	14.2	21.5	40.9	70.8
Total revenue	2,982.8	2,334.1	8,248.7	6,692.7
Expenses:				
Cost of goods sold (excluding amortization of acquired intangible assets)	107.7	109.9	324.5	314.7
Research and development	1,653.5	1,304.5	3,335.4	2,920.5
Selling, general and administrative	698.0	550.3	1,973.1	1,696.3
Amortization of acquired intangible assets	87.1	63.6	353.7	190.9
Acquisition related charges and restructuring, net	25.0	226.2	25.3	215.9
Total costs and expenses	2,571.3	2,254.5	6,012.0	5,338.3
Operating income	411.5	79.6	2,236.7	1,354.4
Other income and (expense):				
Interest and investment income, net	7.3	8.6	21.3	26.4
Interest (expense)	(127.8 )	(88.5 )	(373.0 )	(186.0 )
Other income (expense), net	(34.2 )	(19.6 )	(11.5 )	83.2
Income (loss) before income taxes	256.8	(19.9 )	1,873.5	1,278.0
Income tax provision	85.4	14.2	303.2	237.0
Net income (loss)	\$171.4	\$(34.1 )	\$1,570.3	\$1,041.0
Net income (loss) per common share:				
Basic	\$0.22	\$(0.04 )	\$2.02	\$1.31
Diluted	\$0.21	\$(0.04 )	\$1.95	\$1.26
Weighted average shares:				
Basic	775.8	791.1	777.3	794.3
Diluted	801.5	791.1	803.7	827.7

See accompanying Notes to Unaudited Consolidated Financial Statements

CELGENE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Dollars in millions)

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$171.4	\$(34.1)	\$1,570.3	\$1,041.0
Other comprehensive income (loss):				
Foreign currency translation adjustments	3.9	(4.2)	6.6	(11.9)
Pension liability adjustment	—	—	—	(7.6)
Net unrealized gains (losses) related to cash flow hedges:				
Unrealized holding gains (losses)	(53.4)	(67.1)	(243.7)	277.0
Tax benefit (expense)	(0.6)	29.9	17.8	8.3
Unrealized holding gains (losses), net of tax	(54.0)	(37.2)	(225.9)	285.3
Reclassification adjustment for (gains) included in net income (loss)	(69.4)	(91.4)	(216.0)	(249.6)
Tax (benefit)	(0.6)	(0.5)	(1.9)	(1.5)
Reclassification adjustment for (gains) included in net income (loss), net of tax	(70.0)	(91.9)	(217.9)	(251.1)
Net unrealized gains (losses) on marketable securities available for sale:				
Unrealized holding (losses)	(7.7)	(426.3)	(361.0)	(434.6)
Tax benefit	2.1	133.7	129.4	136.8
Unrealized holding (losses), net of tax	(5.6)	(292.6)	(231.6)	(297.8)
Reclassification adjustment for losses included in net income (loss)	30.7	10.9	71.2	11.6
Tax (benefit)	(10.9)	(3.9)	(25.0)	(4.1)
Reclassification adjustment for losses included in net income (loss), net of tax	19.8	7.0	46.2	7.5
Total other comprehensive (loss)	(105.9)	(418.9)	(622.6)	(275.6)
Comprehensive income (loss)	\$65.5	\$(453.0)	\$947.7	\$765.4

See accompanying Notes to Unaudited Consolidated Financial Statements

CELGENE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in millions, except per share amounts)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,522.6	\$ 4,880.3
Marketable securities available for sale	1,346.0	1,671.6
Accounts receivable, net of allowances of \$32.1 and \$30.3 at September 30, 2016 and December 31, 2015, respectively	1,586.3	1,420.9
Inventory	507.9	443.4
Other current assets	612.8	984.7
Total current assets	9,575.6	9,400.9
Property, plant and equipment, net	891.3	814.1
Intangible assets, net	10,498.9	10,858.1
Goodwill	4,865.8	4,879.0
Other assets	922.1	1,012.3
Total assets	\$ 26,753.7	\$ 26,964.4
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	501.0	—
Accounts payable	235.4	240.8
Accrued expenses and other current liabilities	1,847.1	1,647.7
Income taxes payable	3.8	19.8
Current portion of deferred revenue	62.1	60.6
Total current liabilities	2,649.4	1,968.9
Deferred revenue, net of current portion	28.4	30.0
Income taxes payable	370.1	324.2
Other non-current tax liabilities	2,519.2	2,519.2
Other non-current liabilities	1,733.8	2,041.7
Long-term debt, net of discount	13,802.5	14,161.4
Total liabilities	21,103.4	21,045.4
Commitments and Contingencies (Note 15)		
Stockholders' Equity:		
Preferred stock, \$.01 par value per share, 5.0 million shares authorized; none outstanding at September 30, 2016 and December 31, 2015, respectively	—	—
Common stock, \$.01 par value per share, 1,150.0 million shares authorized; issued 949.4 million and 940.1 million shares at September 30, 2016 and December 31, 2015, respectively	9.5	9.4
Common stock in treasury, at cost; 174.0 million and 153.5 million shares at September 30, 2016 and December 31, 2015, respectively	(16,130.2 )	(14,051.8 )
Additional paid-in capital	11,981.2	11,119.3
Retained earnings	9,644.7	8,074.4
Accumulated other comprehensive income	145.1	767.7
Total stockholders' equity	5,650.3	5,919.0
Total liabilities and stockholders' equity	\$ 26,753.7	\$ 26,964.4

See accompanying Notes to Unaudited Consolidated Financial Statements

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CELGENE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in millions)

	Nine-Month Periods Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 1,570.3	\$ 1,041.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	89.6	86.6
Amortization	276.9	193.8
Deferred income taxes	(256.8)	(413.1)
Impairment charges	187.1	26.6
Change in value of contingent consideration	12.2	(17.2)
Gain on sale of business	(37.5)	—
Net (gain) on sale of investments	(7.2)	(84.1)
Share-based compensation expense	451.7	426.4
Share-based employee benefit plan expense	28.7	24.1
Derivative instruments	193.2	(33.8)
Other, net	(9.3)	22.6
Change in current assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	(143.8)	(145.8)
Inventory	(62.3)	(27.1)
Other operating assets	137.2	(17.6)
Accounts payable and other operating liabilities	163.9	250.2
Income tax payable	27.9	43.9
Deferred revenue	11.6	49.3
Net cash provided by operating activities	2,633.4	1,425.8
Cash flows from investing activities:		
Proceeds from sales of marketable securities available for sale	541.7	3,661.7



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Purchases of marketable securities available for sale	(560.1)	)	(1,699.4)	)
Payments for acquisition of businesses, net of cash acquired	—		(7,579.3)	)
Capital expenditures	(169.8)	)	(145.5)	)
Proceeds from sales of investment securities	13.1		85.5	
Purchases of investment securities	(122.3)	)	(216.3)	)
Other	(0.6)	)	(4.5)	)
Net cash (used in) investing activities	(298.0)	)	(5,897.8)	)
Cash flows from financing activities:				
Payment for treasury shares	(2,026.4)	)	(2,574.1)	)
Proceeds from short-term borrowing	—		2,230.9	
Principal repayments on short-term borrowing	—		(1,630.8)	)
Proceeds from issuance of long-term debt	—		7,913.3	
Net proceeds from common equity put options	7.6		10.2	
Net proceeds from share-based compensation arrangements	190.8		204.2	
Excess tax benefit from share-based compensation arrangements	129.8		243.7	
Net cash (used in) provided by financing activities	(1,698.2)	)	6,397.4	
Effect of currency rate changes on cash and cash equivalents	5.1		(30.5)	)
Net increase in cash and cash equivalents	642.3		1,894.9	
Cash and cash equivalents at beginning of period	4,880.3		4,121.6	
Cash and cash equivalents at end of	\$ 5,522.6		\$ 6,016.5	

period

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 millions)

	Nine-Month Periods Ended September 30, 2016 2015	
Supplemental schedule of non-cash investing and financing activity:		
Change in net unrealized loss on marketable securities available for sale	\$361.0	\$434.6
Investment in Human Longevity, Inc. common stock	\$39.6	\$—
Supplemental disclosure of cash flow information:		
Interest paid	\$463.3	\$171.1
Income taxes paid	\$345.1	\$345.6

See accompanying Notes to Unaudited Consolidated Financial Statements

CELGENE CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Nature of Business and Basis of Presentation

Celgene Corporation, together with its subsidiaries (collectively “we,” “our,” “us,” “Celgene” or the “Company”), is an integrated global biopharmaceutical company engaged primarily in the discovery, development and commercialization of innovative therapies for the treatment of cancer and inflammatory diseases through next-generation solutions in protein homeostasis, immuno-oncology, epigenetics, immunology and neuro-inflammation. Celgene Corporation was incorporated in the State of Delaware in 1986.

Our primary commercial stage products include REVLIMID<sup>®</sup>, POMALYST<sup>®</sup>/IMNOVID<sup>®</sup>, OTEZLA<sup>®</sup>, ABRAXANE<sup>®</sup>, VIDAZA<sup>®</sup>, azacitidine for injection (generic version of VIDAZA<sup>®</sup>), THALOMID<sup>®</sup> (sold as THALOMID<sup>®</sup> or Thalidomide Celgene<sup>™</sup> outside of the U.S.), and ISTODAX<sup>®</sup>. In addition we earn revenue through licensing arrangements.

The consolidated financial statements include the accounts of Celgene Corporation and its subsidiaries. Investments in limited partnerships and interests where we have an equity interest of 50% or less and do not otherwise have a controlling financial interest are accounted for by either the equity or cost method. Certain prior year amounts have been reclassified to conform to the current year's presentation.

We operate in a single segment engaged in the discovery, development, manufacturing, marketing, distribution and sale of innovative therapies for the treatment of cancer and inflammatory diseases. Consistent with our operational structure, our Chief Executive Officer (CEO), as the chief operating decision maker, manages and allocates resources at the global corporate level. Our global research and development organization is responsible for discovery of new drug candidates and supports development and registration efforts for potential future products. Our global supply chain organization is responsible for the manufacturing and supply of products. Regional/therapeutic area commercial organizations market, distribute and sell our products. The business is also supported by global corporate staff functions. Managing and allocating resources at the global corporate level enables our CEO to assess both the overall level of resources available and how to best deploy these resources across functions, therapeutic areas, regional commercial organizations and research and development projects in line with our overarching long-term corporate-wide strategic goals, rather than on a product or franchise basis. Consistent with this decision-making process, our CEO uses consolidated, single-segment financial information for purposes of evaluating performance, allocating resources, setting incentive compensation targets, as well as forecasting future period financial results.

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. We are subject to certain risks and uncertainties related to, among other things, product development, regulatory approval, market acceptance, scope of patent and proprietary rights, competition, outcome of legal and governmental proceedings, European credit risk, 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

Our significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Annual Report on Form 10-K).

New accounting standards which have been adopted

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03). ASU 2015-03 more closely aligns the presentation of debt issuance costs under U.S. GAAP with the presentation under comparable IFRS standards by requiring that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, similar to the presentation of debt discounts or premiums. We adopted ASU 2015-03 in the first quarter of 2016. Other assets and Long-term debt, net of discount

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

have been restated as of December 31, 2015 to reflect the retroactive reclassification of \$89.0 million of debt issuance costs that have been reclassified from Other assets to Long-term debt, net of discount.

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" (ASU 2015-05). ASU 2015-05 provides guidance to help companies evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 was effective for us beginning in the first quarter of 2016. The adoption of this updated standard did not have a material impact on our consolidated financial statements and related disclosures.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments" (ASU 2015-16). ASU 2015-16 replaces the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively with a requirement that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-16 was effective for us beginning in the first quarter of 2016. During the third quarter of 2016 we recorded a measurement period adjustment related to the valuation of contingent consideration and goodwill associated with the 2015 acquisition of Quantical Pharmaceuticals, Inc. that reduced the acquisition date fair values of both contingent consideration and goodwill by \$10.7 million. There was no material impact on 2016 net income.

New accounting standards which have not yet been adopted

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09). ASU 2014-09 supersedes nearly all existing revenue recognition guidance under U.S. GAAP and requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This accounting guidance is effective for us beginning in the first quarter of 2018 using one of two prescribed transition methods. We are currently evaluating the effect that the updated standard and transition method will have on our consolidated financial statements and related disclosures.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" (ASU 2015-11). ASU 2015-11 applies only to inventory for which cost is determined by methods other than last-in, first-out and the retail inventory method, which includes inventory that is measured using first-in, first-out or average cost. Inventory within the scope of this standard is required to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new standard will be effective for us on January 1, 2017. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, "Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01). ASU 2016-01 changes accounting for equity investments, financial liabilities under the fair value option, and presentation and disclosure

requirements for financial instruments. ASU 2016-01 does not apply to equity investments in consolidated subsidiaries or those accounted for under the equity method of accounting. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. Equity investments with readily determinable fair values will be measured at fair value with changes in fair value recognized in net income. Companies have the option to either measure equity investments without readily determinable fair values at fair value or at cost adjusted for changes in observable prices minus impairment. Changes in measurement under either alternative will be recognized in net income. Companies that elect the fair value option for financial liabilities must recognize changes in fair value related to instrument-specific credit risk in other comprehensive income. Companies must assess valuation allowances for deferred tax assets related to available-for-sale debt securities in combination with their other deferred tax assets. ASU 2016-01 will be effective for us beginning in the first quarter of 2018 and early adoption is available to publicly traded companies for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. We expect the implementation of this standard to have an impact on our consolidated financial statements and related disclosures, as we held publicly traded equity investments at September 30, 2016 with a fair value of \$1.002 billion, as well as equity investments accounted

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

for under the cost method. A cumulative-effect adjustment to the balance sheet will be recorded as of the beginning of the fiscal year of adoption. The implementation of ASU 2016-01 is expected to increase volatility in our net income as the volatility currently recorded in other comprehensive income related to changes in the fair market value of available for sale equity investments will be reflected in net income after adoption.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases" (ASU 2016-02). ASU 2016-02 provides accounting guidance for both lessee and lessor accounting models. Among other things, lessees will recognize a right-of-use asset and a lease liability for leases with a duration of greater than one year. For income statement purposes, ASU 2016-02 will require leases to be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The new standard will be effective for us on January 1, 2019 and will be adopted using a modified retrospective approach which will require application of the new guidance at the beginning of the earliest comparative period presented. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures, however, we anticipate recognition of additional assets and corresponding liabilities related to leases on our consolidated balance sheet.

In March 2016, the FASB issued Accounting Standards Update No. 2016-07, "Investments-Equity Method and Joint Ventures" (ASU 2016-07). ASU 2016-07 eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively as if the equity method had been in effect during all previous periods that the investment had been held. Under the new guidance, available-for-sale equity securities that become qualified for the equity method of accounting will result in the recognition through earnings of the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The new standard will be effective for us on January 1, 2017 and will be adopted on a prospective basis. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation-Stock Compensation" (ASU 2016-09). ASU 2016-09 changes several aspects of the accounting for share-based payment transactions including requiring all excess tax benefits and tax deficiencies to be recognized in the Statement of Operations as a discrete item in the reporting period in which they occur, classification of awards as either equity or liabilities, employee tax withholding, calculation of shares for use in diluted earnings per share, and classification on the statement of cash flows. The new standard will be effective for us on January 1, 2017. Early adoption is available. We anticipate that the updated standard will result in an increase in the shares used in the calculation of diluted earnings per share in an amount that will vary depending primarily on the share price of our common stock during future periods as well as the strike prices of outstanding employee stock options during future periods.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments" (ASU 2016-13). ASU 2016-13 requires that expected credit losses relating to financial assets measured on an amortized cost basis and available-for-sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The new standard will be effective for us on January 1, 2020. Early adoption will be available on January 1, 2019. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.



In August 2016, the FASB issued Accounting Standards Update No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" (ASU 2016-15). ASU 2016-15 clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows where diversity in practice exists. ASU 2016-15 is effective for us in our first quarter of fiscal 2018 and earlier adoption is permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory" (ASU 2016-16). ASU 2016-16 requires the income tax consequences of intra-entity transfers of assets other than inventory to be recognized as current period income tax expense or benefit at the transaction date and removes the option to defer and amortize the consolidated tax consequences of intra-entity transfers. The new standard will be effective for us on January 1, 2018 and will be adopted using a modified retrospective approach which requires a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. Early adoption is permitted at the beginning of a fiscal year. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

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

### 3. Acquisitions and Divestitures

#### Acquisitions and Divestitures of Businesses

Receptos, Inc. (Receptos): On August 27, 2015 (Acquisition Date), we acquired all of the outstanding common stock of Receptos, resulting in Receptos becoming our wholly-owned subsidiary. Receptos' lead drug candidate, ozanimod, is a small molecule that modulates sphingosine 1-phosphate 1 and 5 receptors and it is in development for immune-inflammatory indications, including inflammatory bowel disease and relapsing multiple sclerosis (RMS). The acquisition of Receptos also included RPC4046, an anti-interleukin-13 (IL-13) antibody in development for eosinophilic esophagitis (EoE), an allergic/immune-mediated orphan disease. RPC4046 was licensed from AbbVie Bahamas Ltd. and AbbVie Inc. (collectively referred to as AbbVie). The results of operations and cash flows for Receptos are included in our consolidated financial statements from the Acquisition Date and the assets and liabilities of Receptos have been recorded at their respective fair values on the Acquisition Date and consolidated with our assets and liabilities.

We paid approximately \$7.626 billion, consisting of \$7.311 billion for common stock outstanding and \$0.315 billion for the portion of equity compensation attributable to the pre-combination period. In addition, we paid \$0.197 billion for the portion of equity compensation attributable to the post-combination service period, which has been recorded as expense over the required service period ending in the fourth quarter of 2015.

The acquisition has been accounted for using the acquisition method of accounting which requires that 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 (IPR&D) to be classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts.

The total consideration for the acquisition of Receptos is summarized as follows:

	Total Consideration
Cash paid for outstanding common stock	\$ 7,311.3
Cash for equity compensation attributable to pre-combination service	314.9
Total consideration	\$ 7,626.2

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 summarized below. During the fourth quarter of 2015, adjustments were recorded to increase the amounts initially recorded for deferred tax assets, deferred tax liabilities and goodwill as of the Acquisition Date.

	Amounts Recognized as of the Acquisition Date
Working capital <sup>1</sup>	\$ 479.2
Property, plant and equipment	5.0
In-process research and development product rights	6,842.0
Current deferred tax assets <sup>2</sup>	241.3
Other non-current assets	7.9

Non-current deferred tax liabilities <sup>3</sup>	(2,519.2 )
Total identifiable net assets	5,056.2
Goodwill	2,570.0
Total net assets acquired	\$ 7,626.2

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

<sup>1</sup> Includes cash and cash equivalents, available for sale marketable securities, other current assets, accounts payable, and accrued expenses and other current liabilities.

<sup>2</sup> Following adoption of Accounting Standards Update No. 2015-17, "Balance Sheet Classification of Deferred Taxes" in the fourth quarter of 2015 all deferred tax assets and liabilities and associated valuation allowances are classified as non-current.

<sup>3</sup> Upon integration of the acquired intangible assets into our offshore research, manufacturing, and commercial operations, the deferred tax liability was reclassified to a non-current tax liability.

The fair values of current and other non-current assets, current liabilities and property, plant and equipment were determined to approximate their book values.

The fair value assigned to acquired IPR&D was based on the present value of expected after-tax cash flows attributable to ozanimod, which is in phase II and III testing. The present value of expected after-tax cash flows attributable to ozanimod and assigned to IPR&D was determined by estimating the after-tax costs to complete development of ozanimod into a commercially viable product, estimating future revenue and ongoing expenses to produce, support and sell ozanimod, on an after-tax basis, and discounting the resulting net cash flows to present value. The revenue and costs projections used were reduced based on the probability that compounds at similar stages of development will become commercially viable products. The rate utilized to discount the net cash flows to their present value reflects the risk associated with the intangible asset and is benchmarked to the cost of equity. Acquired IPR&D will be accounted for as an indefinite-lived intangible asset until regulatory approval in a major market or discontinuation of development.

The excess of purchase price over the fair value amounts assigned to identifiable assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition. The goodwill recorded as part of the acquisition is primarily attributable to the broadening of our product portfolio and research capabilities in the inflammation and immunology therapeutic area, the assembled workforce and the deferred tax consequences of the IPR&D asset recorded for financial statement purposes. We do not expect any portion of this goodwill to be deductible for tax purposes. The goodwill attributable to the acquisition has been recorded as a non-current asset in our Consolidated Balance Sheets and is not amortized, but is subject to review for impairment annually.

As a result of the exclusive development license from AbbVie for RPC4046 that Receptos held prior to our acquisition of Receptos, AbbVie holds an option to enter into a global collaboration for RPC4046 with us. If AbbVie does not exercise its option, we will have an exclusive worldwide license for the development and commercialization of RPC4046 for any and all indications. We do not consider this potential collaboration arrangement to be significant.

## Pro Forma Financial Information:

The following table provides unaudited pro forma financial information for the three- and nine-month periods ended September 30, 2015 as if the acquisition of Receptos had occurred on January 1, 2014.

	Three-Month Period Ended September 30, 2015	Nine-Month Period Ended September 30, 2015
Total revenue	\$ 2,334.1	\$ 6,692.7
Net income	\$ 107.3	\$ 1,029.8
Net income per common share: basic	\$ 0.14	\$ 1.30
Net income per common share: diluted	\$ 0.13	\$ 1.24

The unaudited pro forma financial information was prepared using the acquisition method of accounting and was based on the historical financial information of Celgene and Receptos. The pro-forma financial information assumes that the acquisition-related transaction fees and costs incurred were removed from the three-month period ended September 30, 2015 and were assumed to have been incurred during the first quarter of 2014. 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 Receptos. 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.

Quantice! Pharmaceuticals, Inc. (Quantice!): On October 19, 2015, we completed our previously announced acquisition of Quantice!, a privately held biotechnology company focused on cancer drug discovery, for consideration consisting of \$95.9 million in cash at closing plus contingent consideration consisting of future payments of up to \$385.0 million for achieving specified discovery and development targets. We had a research collaboration arrangement with Quantice! since 2011. Through this purchase, Quantice! has become our wholly-owned subsidiary, and we will benefit from full access to Quantice!'s proprietary platform for

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

the single-cell genomic analysis of human cancer, as well as QuanticeL’s programs that target specific epigenetic modifiers, which we expect will advance our pipeline of innovative cancer therapies.

The acquisition was accounted for using the acquisition method of accounting for business combinations which requires the assets and liabilities of QuanticeL to be recorded at their respective fair values on the acquisition date and consolidated into our Consolidated Balance Sheets. The results of operations and cash flows for QuanticeL have been included in our consolidated financial statements from the date of acquisition.

Fair value amounts allocated to contingent consideration and goodwill presented below have been reduced by \$10.7 million during the third quarter of 2016. These measurement period adjustments were not significant and did not have a significant impact on our financial condition, results of operations or cash flows in any interim period in 2016.

The fair value of consideration transferred in the acquisition of QuanticeL is shown in the table below:

	Fair Value at October 19, 2015 (as adjusted)
Cash	\$ 95.9
Fair value of pre-existing equity ownership	11.4
Contingent consideration	155.3
Total fair value of consideration	\$ 262.6

Prior to the acquisition of QuanticeL, we had an equity interest equal to approximately 5% of the company’s total capital stock (on an “as converted” basis). Based on the fair market value of this interest derived from the purchase price, we recognized a gain of \$10.3 million, which was reflected as a component of Other income (expense), net within our Consolidated Statements of Income for the year ended December 31, 2015.

Our potential contingent consideration payments are classified as liabilities, which were measured at fair value as of the acquisition date. We estimated the fair value of potential contingent consideration using a probability-weighted discounted cash flow approach, which reflects the probability and timing of future potential payments. This fair value measurement is based on significant inputs that are not observable in the market and thus represents a level three liability within the fair value hierarchy. The resulting probability-weighted cash flows were discounted using a discount rate based on a market participant assumption. 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 summarized below.

	Fair Value at October 19, 2015 (as adjusted)
Working capital <sup>1</sup>	\$ 7.0
Property, plant and equipment	1.9
Other non-current assets	0.8
Technology platform intangible asset <sup>2</sup>	232.0

Debt obligations	(13.9 )
Non-current deferred tax liabilities	(72.3 )
Total identifiable net assets	155.5
Goodwill	107.1
Total net assets acquired	\$ 262.6

<sup>1</sup> Includes cash and cash equivalents, available-for-sale marketable securities, other current assets, accounts payable and accrued expenses and other current liabilities.

<sup>2</sup> Technology platform related to Quantice's proprietary technology platform for the single-cell genomic analysis of human cancer.

The fair values of current and other non-current assets, property, plant and equipment, current liabilities and debt were determined to approximate their book values.

CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The fair value of the technology platform intangible asset is equal to the present value of the after-tax cash flows attributable to the intangible asset, which was calculated based on the multi-period excess earnings method of the income approach. The multi-period excess earnings method of the income approach included estimating probability adjusted annual after-tax net cash flows through the cycle of development and commercialization of potential products generated by the technology platform then discounting the resulting probability adjusted net post-tax cash flows using a discount rate commensurate with the risk of our overall business operations to arrive at the net present value.

The excess of purchase price over the fair value amounts assigned to the identifiable assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition. The goodwill recorded as part of the acquisition is largely attributable to the deferred tax consequences of the finite-lived technology platform intangible asset recorded for financial statement purposes, as well as intangible assets that do not qualify for separate recognition at the time of the acquisition. We do not expect any portion of this goodwill to be deductible for tax purposes. Goodwill attributable to the acquisition has been recorded as a non-current asset in our Consolidated Balance Sheets and is not amortized, but is subject to review for impairment annually.

**LifebankUSA:** In February 2016, we completed the sale of certain assets of Celgene Cellular Therapeutics (CCT) comprising CCT's biobanking business known as LifebankUSA, CCT's biomaterials portfolio of assets, including Biovance<sup>®</sup>, and CCT's rights to PSC-100, a placental stem cell program, to Human Longevity, Inc. (HLI), a genomics and cell therapy-based diagnostic and therapeutic company based in San Diego, California. We received 3.4 million shares of HLI Class A common stock with a fair value of \$39.6 million as consideration in the transaction. The fair value of the shares common stock we received was determined based on the most recent preferred share offering and reduced for the estimated value of the liquidation preference not offered to common share holders. The transaction generated a \$37.5 million gain that was recorded on our Consolidated Statements of Operations in Other income (expense), net. As of September 30, 2016 our total investment in HLI represents approximately 16% of HLI's outstanding capital stock.

#### Other Acquisitions

**EngMab AG (EngMab):** On September 27, 2016, we acquired all of the outstanding shares of EngMab, a privately held biotechnology company focused on T-cell bi-specific antibodies. EngMab's lead molecule, EM901 is a preclinical T-cell bi-specific antibody targeting B-cell maturation antigen (BCMA). The acquisition also included another early stage program.

The consideration included an initial payment of 606.9 million Swiss Francs (CHF) (approximately \$625.3 million), contingent development and regulatory milestones of up to CHF 150.0 million (approximately \$154.7 million) and contingent commercial milestones of up to CHF 2.250 billion (approximately \$2.320 billion) based on cumulative sales levels of between \$1.000 billion and \$40.000 billion. The acquisition of EngMab did not include any significant processes and thus, for accounting purposes, we have concluded that the acquired assets did not meet the definition of a business. The initial payment was allocated primarily to the EM901 molecule and another early stage program, resulting in a \$623.3 million research and development asset acquisition expense and \$2.0 million of net working capital acquired.



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

## 4. Earnings Per Share

(Amounts in millions, except per share)	Three-Month		Nine-Month	
	Periods Ended		Periods Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Net income (loss)	\$171.4	\$(34.1)	\$1,570.3	\$1,041.0
Weighted-average shares:				
Basic	775.8	791.1	777.3	794.3
Effect of dilutive securities:				
Options, restricted stock units, performance-based restricted stock units and other	25.7	—	26.4	33.4
Diluted	801.5	791.1	803.7	827.7
Net income (loss) per share:				
Basic	\$0.22	\$(0.04)	\$2.02	\$1.31
Diluted	\$0.21	\$(0.04)	\$1.95	\$1.26

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 20.7 million and 32.5 million shares for the three-month periods ended September 30, 2016 and 2015, respectively. 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 21.7 million and 11.6 million shares for the nine-month periods ended September 30, 2016 and 2015, respectively. All of the potentially dilutive securities for the three-month period ended September 30, 2015 were determined to be anti-dilutive due to the net loss reported.

Share Repurchase Program: In June 2016, our Board of Directors approved an increase of \$3.000 billion to our authorized share repurchase program, bringing the total amount authorized since April 2009 to an aggregate of up to \$20.500 billion of our common stock.

As part of the management of our share repurchase program, we may, from time to time, sell put options on our common stock with strike prices that we believe represent an attractive price to purchase our shares. If the trading price of our shares exceeds the strike price of the put option at the time the option expires, we will have economically reduced the cost of our share repurchase program by the amount of the premium we received from the sale of the put option. If the trading price of our stock is below the strike price of the put option at the time the option expires, we would purchase the shares covered by the option at the strike price of the put option. During the three-month and nine-month periods ended September 30, 2016 and 2015, we recorded put option activity on our Consolidated Statements of Operations in Other income (expense), net as follows:

	Three-Month	Nine-Month
	Periods	Periods
	Ended	Ended
	September	September
	30,	30,
	2015	2016
	2015	2015
Gain (loss) from sale of put options	\$ — (18.8 )	\$7.6 (9.9)

At September 30, 2016, we had no outstanding put options.

We have purchased 2.5 million and 20.0 million shares of common stock under the share repurchase program from all sources at a total cost of \$273.4 million and \$2.026 billion during the three- and nine-month periods ended September 30, 2016, respectively. As of September 30, 2016, we had a remaining share repurchase authorization of \$4.865 billion.

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

5. Accumulated Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) consist of changes in pension liability, 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.

The accumulated balances related to each component of other comprehensive income (loss), net of tax, are summarized as follows:

	Pension Liability	Net Unrealized Gains (Losses) From Marketable Securities	Net Unrealized Gains (Losses) From Hedges	Foreign Currency Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance December 31, 2015	\$(13.9 )	\$ 271.5	\$ 586.4	\$ (76.3 )	\$ 767.7
Other comprehensive income (loss) before reclassifications	—	(231.6 )	(225.9 )	6.6	(450.9 )
Amounts reclassified from accumulated other comprehensive income	—	46.2	(217.9 )	—	(171.7 )
Net current-period other comprehensive income (loss)	—	(185.4 )	(443.8 )	6.6	(622.6 )
Balance September 30, 2016	\$(13.9 )	\$ 86.1	\$ 142.6	\$ (69.7 )	\$ 145.1
Balance December 31, 2014	\$(15.5 )	\$ 460.9	\$ 519.6	\$ (50.2 )	\$ 914.8
Other comprehensive income (loss) before reclassifications	(7.6 )	(297.8 )	285.3	(11.9 )	(32.0 )
Amounts reclassified from accumulated other comprehensive income	—	7.5	(251.1 )	—	(243.6 )
Net current-period other comprehensive income (loss)	(7.6 )	(290.3 )	34.2	(11.9 )	(275.6 )
Balance September 30, 2015	\$(23.1 )	\$ 170.6	\$ 553.8	\$ (62.1 )	\$ 639.2

Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Operations	Gains (Losses) Reclassified Out of Accumulated Other Comprehensive Income			
		Three-Month Periods Ended		Nine-Month Periods Ended	
		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Gains (losses) from cash-flow hedges:					
Foreign exchange contracts	Net product sales	\$71.0	\$92.9	\$221.0	\$253.6
Treasury rate lock agreements	Interest (expense)	(1.3 )	(1.1 )	(3.9 )	(2.9 )
Interest rate swap agreements	Interest (expense)	(0.3 )	(0.4 )	(1.1 )	(1.1 )
	Income tax provision	0.6	0.5	1.9	1.5
Gains (losses) from available-for-sale marketable securities:					
Realized income (loss) on sales of marketable securities	Interest and investment income, net	(30.7 )	(10.9 )	(71.2 )	(11.6 )

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	Income tax provision	10.9	3.9	25.0	4.1
Total reclassification, net of tax		\$50.2	\$84.9	\$171.7	\$243.6

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

6. Financial Instruments and Fair Value Measurement

The tables below present information about assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 and the valuation techniques we utilized to determine such fair value. Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Our level 1 assets consist of marketable equity securities. Our level 1 liability relates to our publicly traded Contingent Value Rights (CVRs). See Note 18 of Notes to Consolidated Financial Statements included in our 2015 Annual Report on Form 10-K for a description of the CVRs.

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. Our level 2 assets consist primarily of U.S. Treasury securities, U.S. government-sponsored agency mortgage-backed (MBS) securities, global corporate debt securities, asset backed securities, foreign currency forward contracts, purchased foreign currency options and interest rate swap contracts. Our level 2 liabilities relate to written foreign currency options, foreign currency forward contracts and interest rate swap contracts.

Level 3 inputs utilize unobservable inputs and include valuations of assets or liabilities for which there is little, if any, market activity. We do not have any level 3 assets. Our level 3 liabilities consist of contingent consideration related to undeveloped product rights and technology platforms resulting from the acquisitions of Gloucester Pharmaceuticals, Inc. (Gloucester), Nogra Pharma Limited (Nogra), Avila Therapeutics, Inc. (Avila) and Quanticel.

Our contingent consideration obligations are recorded at their estimated fair values and we revalue these obligations each reporting period until the related contingencies are resolved. The fair value measurements are estimated using probability-weighted discounted cash flow approaches that are based on significant unobservable inputs related to product candidates acquired in business combinations and are reviewed quarterly. These inputs include, as applicable, estimated probabilities and timing of achieving specified development and regulatory milestones, estimated annual sales and the discount rate used to calculate the present value of estimated future payments. Significant changes which increase or decrease the probabilities of achieving the related development and regulatory events, shorten or lengthen the time required to achieve such events, or increase or decrease estimated annual sales would result in corresponding increases or decreases in the fair values of these obligations. Changes in the fair value of contingent consideration obligations are recognized in Acquisition related charges and restructuring, net in the Consolidated Statements of Operations. The fair value of our contingent consideration as of September 30, 2016 and December 31, 2015 was calculated using the following significant unobservable inputs:

Inputs	Ranges (weighted average) utilized as of:	
	September 30, 2016	December 31, 2015
Discount rate	0.8% to 12.0% (8.6%)	0.8% to 12.0% (8.8%)
Probability of payment	0% to 95% (42%)	0% to 95% (53%)
Projected year of payment for development and regulatory milestones	2016 to 2029 (2019)	2016 to 2029 (2019)
Projected year of payment for sales-based milestones and other amounts calculated as a percentage of annual sales	2019 to 2033 (2024)	2019 to 2033 (2024)

The maximum remaining potential payments related to the contingent consideration from the acquisitions of Gloucester, Avila and Quanticel are estimated to be \$120.0 million, \$475.0 million and \$363.4 million respectively, and \$1.865 billion plus other amounts calculated as a percentage of annual sales pursuant to the license agreement with Nogra.



## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Balance at September 30, 2016	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	\$ 1,346.0	\$ 1,002.3	\$ 343.7	\$ —
Forward currency contracts	217.9	—	217.9	—
Purchased currency options	45.3	—	45.3	—
Total assets	\$ 1,609.2	\$ 1,002.3	\$ 606.9	\$ —
Liabilities:				
Contingent value rights	\$ (45.0 )	\$ (45.0 )	\$ —	\$ —
Interest rate swaps	(43.1 )	—	(43.1 )	—
Written currency options	(44.0 )	—	(44.0 )	—
Other acquisition related contingent consideration	(1,480.1 )	—	—	(1,480.1 )
Total liabilities	\$ (1,612.2 )	\$ (45.0 )	\$ (87.1 )	\$ (1,480.1 )

	Balance at December 31, 2015	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	\$ 1,671.6	\$ 1,235.9	\$ 435.7	\$ —
Forward currency contracts	606.0	—	606.0	—
Purchased currency options	46.7	—	46.7	—
Interest rate swaps	52.5	—	52.5	—
Total assets	\$ 2,376.8	\$ 1,235.9	\$ 1,140.9	\$ —
Liabilities:				
Contingent value rights	\$ (51.9 )	\$ (51.9 )	\$ —	\$ —
Written currency options	(19.1 )	—	(19.1 )	—
Other acquisition related contingent consideration	(1,521.5 )	—	—	(1,521.5 )
Total liabilities	\$ (1,592.5 )	\$ (51.9 )	\$ (19.1 )	\$ (1,521.5 )

There were no security transfers between levels 1 and 2 during the three- and nine-month periods ended September 30, 2016 and 2015. The following table represents a roll-forward of the fair value of level 3 instruments:

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2016	2015	2016	2015
Liabilities:				
Balance at beginning of period	\$ (1,469.5)	\$ (1,315.0)	\$ (1,521.5)	\$ (1,279.0)

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Amounts acquired or issued, including measurement period adjustments	10.7	—	10.7	—
Net change in fair value	(41.1	) (13.5	) (19.1	) (49.5
Settlements, including transfers to Accrued expenses and other current liabilities	19.8	—	49.8	—
Transfers in and/or out of level 3	—	—	—	—
Balance at end of period	\$(1,480.1)	\$(1,328.5)	\$(1,480.1)	\$(1,328.5)

The roll-forward of the fair value of level 3 instruments above includes an \$81.1 million decrease in the fair value of contingent consideration from the acquisition of Avila that was recorded in the second quarter of 2016 as a result of adjustments made to the probability and timing of future potential milestone payments. An adjustment was also made to the technology platform asset obtained in the acquisition of Avila based on probability-weighted future cash flows, which resulted in an \$83.1 million reduction



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

in the fair value of the technology platform asset during the second quarter of 2016 (see Note 10). The fair value of level 3 liabilities also decreased by \$49.8 million due to Quantice milestones of \$30.0 million in the second quarter of 2016 and \$19.8 million in the third quarter of 2016 that were achieved and transferred to Accrued expenses and other current liabilities. Lastly, a \$10.7 million measurement period adjustment was recorded during the third quarter of 2016 related to the valuation of contingent consideration associated with the 2015 acquisition of Quantice (see Note 3). These decreases were partly offset by accretion of the fair value of our contingent consideration due to the passage of time and increased estimated probabilities of achieving certain milestones. Changes to the fair value of contingent consideration are recorded on the Consolidated Statements of Operations as Acquisition related charges and restructuring, net.

#### 7. Derivative Instruments and Hedging Activities

Our revenue and earnings, cash flows and fair values of assets and liabilities can be impacted by fluctuations in foreign exchange rates and interest rates. We actively manage the impact of foreign exchange rate and interest rate movements through operational means and through the use of various financial instruments, including derivative instruments such as foreign currency option contracts, foreign currency forward contracts, treasury rate lock agreements and interest rate swap contracts. In instances where these financial instruments are accounted for as cash flow hedges or fair value hedges we may from time to time terminate the hedging relationship. If a hedging relationship is terminated we generally either settle the instrument or enter into an offsetting instrument.

##### Foreign Currency Risk Management

We maintain a foreign exchange exposure management program to mitigate the impact of volatility in foreign exchange rates on future foreign currency cash flows, translation of foreign earnings and changes in the fair value of assets and liabilities denominated in foreign currencies.

Through our revenue hedging program, we endeavor to reduce the impact of possible unfavorable changes in foreign exchange rates on our future U.S. Dollar cash flows that are derived from foreign currency denominated sales. To achieve this objective, we hedge a portion of our forecasted foreign currency denominated sales that are expected to occur in the foreseeable future, typically within the next three years, with a maximum of five years. We manage our anticipated transaction exposure principally with foreign currency forward contracts and occasionally foreign currency put and call options.

**Foreign Currency Forward Contracts:** We use foreign currency forward contracts to hedge specific forecasted transactions denominated in foreign currencies, manage exchange rate volatility in the translation of foreign earnings, and reduce exposures to foreign currency fluctuations of certain assets and liabilities denominated in foreign currencies.

We manage a portfolio of 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, 2016 and December 31, 2015 had settlement dates within 51 months and 36 months, respectively. The spot rate components of these foreign currency forward contracts are designated as cash flow hedges and, to the extent effective, any unrealized gains or losses are reported in other comprehensive income (OCI) and reclassified to operations in the same periods during which the underlying hedged transactions affect earnings. If a hedging relationship is terminated with respect to a foreign currency forward contract, accumulated gains or losses associated with the contract remain in OCI until the hedged forecasted transaction occurs

and are reclassified to operations in the same periods during which the underlying hedged transactions affect earnings. Any ineffectiveness on these foreign currency forward contracts is reported on the Consolidated Statements of Operations in Other income (expense), net. The forward point components of these foreign currency forward contracts are not designated as cash flow hedges and all fair value adjustments of forward point amounts are recorded to Other income (expense), net. Foreign currency forward contracts entered into to hedge forecasted revenue and expenses were as follows at September 30, 2016 and December 31, 2015:

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Foreign Currency	Notional Amount	
	September 30, 2016	December 31, 2015
Australian Dollar	\$53.3	\$45.1
British Pound	188.2	289.3
Canadian Dollar	164.8	135.9
Euro	1,936.9	2,934.3
Japanese Yen	719.8	510.4
Swedish Krona	3.0	—
Total	\$3,066.0	\$3,915.0

We consider the impact of our 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. As of September 30, 2016, credit risk did not materially change the fair value of our foreign currency forward contracts.

We also manage a portfolio of foreign currency contracts to reduce exposures to foreign currency fluctuations of certain recognized assets and liabilities denominated in foreign currencies and, from time to time, we enter into foreign currency contracts to manage exposure related to translation of foreign earnings. 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 Operations 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, 2016 and December 31, 2015 were \$833.5 million and \$920.0 million, respectively.

Foreign Currency Option Contracts: From time to time, we may hedge a portion of our future foreign currency exposure by utilizing a strategy that involves both a purchased local currency put option and a written local currency call option that are accounted for as hedges of future sales denominated in that local currency. Specifically, we sell (or write) a local currency call option and purchase a local currency put option with the same expiration dates and local currency notional amounts but with different strike prices. This combination of transactions is generally referred to as a "collar." The expiration dates and notional amounts correspond to the amount and timing of forecasted foreign currency sales. The foreign currency option contracts outstanding at September 30, 2016 and December 31, 2015 had settlement dates within 51 months and 36 months, respectively. If the U.S. Dollar weakens relative to the currency of the hedged anticipated sales, the purchased put option value reduces to zero and we benefit from the increase in the U.S. Dollar equivalent value of our anticipated foreign currency cash flows; however, this benefit would be capped at the strike level of the written call, which forms the upper end of the collar. The premium collected from the sale of the call option is equal to the premium paid for the purchased put option, resulting in a net zero cost for each collar.

Outstanding foreign currency option contracts entered into to hedge forecasted revenue were as follows at September 30, 2016 and December 31, 2015:

Foreign currency option contracts designated as hedging activity:	Notional Amount <sup>1</sup>	
	September 30, 2016	December 31, 2015
Purchased Put	\$1,016.6	\$ 641.5
Written Call	\$1,126.9	\$ 690.0

<sup>1</sup> U.S. Dollar notional amounts are calculated as the hedged local currency amount multiplied by the strike value of the foreign currency option. The local currency notional amounts of our purchased put and written call that are designated as hedging activities are equal to each other.

Interest Rate Risk Management

Forward Starting Interest Rate Swaps and Treasury Rate Locks: In anticipation of issuing fixed-rate debt, we may use forward starting interest rate swaps (forward starting swaps) or treasury rate lock agreements (treasury rate locks) that are designated as cash flow hedges to hedge against changes in interest rates that could impact expected future issuances of debt. To the extent these hedges of cash flows related to anticipated debt are effective, any realized or unrealized gains or losses on the forward starting swaps or treasury rate locks are reported in OCI and are recognized in income over the life of the anticipated fixed-rate notes.

During 2014, we entered into forward starting swaps that were designated as cash flow hedges to hedge against changes in interest rates that could impact an anticipated issuance of debt in 2015. During 2015, we entered into additional forward starting swaps and treasury rate locks. Forward starting swaps and treasury rate locks with a combined aggregate notional amount of \$2.900

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

billion were settled upon the issuance of debt in August 2015, when the net fair value of the forward starting swaps and treasury rate locks in accumulated OCI was in a loss position of \$21.6 million. The net loss will be recognized as interest expense over the life of the associated senior notes. At September 30, 2016 and December 31, 2015, we had outstanding forward starting swaps with effective dates in 2017 and 2018 and maturing in ten years that were designated as cash flow hedges with notional amounts as shown in the table below:

	Notional Amount	
	September	December
	30,	31, 2015
	2016	

Forward starting interest rate swap contracts:

Forward starting swaps with effective dates in 2017 \$500.0 \$ 200.0

Forward starting swaps with effective dates in 2018 \$500.0 \$ —

Interest Rate Swap Contracts: From time to time we hedge 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 are intended to match those of the debt being hedged, it is assumed to be a highly effective hedge and all changes in fair value of the swap are recorded on the Consolidated Balance Sheets with no net impact recorded in income. Any net interest payments made or received on interest rate swap contracts are recognized as interest expense. If a hedging relationship is terminated for an interest rate swap contract, accumulated gains or losses associated with the contract are measured and recorded as a reduction or increase of current and future interest expense associated with the previously hedged debt obligations.

We had entered into swap contracts that were designated as hedges of certain of our fixed rate notes and also terminated the hedging relationship by settling certain of those swap contracts during 2016 and 2015. In July 2016, we terminated the hedging relationship on all of our then outstanding swap contracts, amounting to \$3.600 billion notional amount, by settling such swap contracts. The settlement of swap contracts resulted in the receipt of net proceeds of \$195.6 million and \$7.7 million during the nine-month periods ended September 30, 2016 and 2015, respectively, which are accounted for as a reduction of current and future interest expense associated with these notes. See Note 11 for additional details related to reductions of current and future interest expense.

The following tables summarize the fair value and presentation in the Consolidated Balance Sheets for derivative instruments as of September 30, 2016 and December 31, 2015:

Instrument	Balance Sheet Location	September 30, 2016 Fair Value	
		Asset Derivatives	Liability Derivatives
Derivatives designated as hedging instruments:			
Foreign exchange contracts <sup>1</sup>	Other current assets	\$244.6	\$ 40.3
	Other non-current assets	53.1	30.4
	Accrued expenses and other current liabilities	1.4	5.7
	Other non-current liabilities	40.1	64.8
Interest rate swap agreements	Other non-current liabilities	0.1	44.1
Derivatives not designated as hedging instruments:			
Foreign exchange contracts <sup>1</sup>	Other current assets	30.8	6.5
	Accrued expenses and other current liabilities	0.9	4.0

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Interest rate swap agreements	Other current assets	0.6	0.6
	Other non-current assets	5.2	4.3
Total		\$376.8	\$ 200.7

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CELGENE CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Instrument	Balance Sheet Location	December 31, 2015 Fair Value	
		Asset Derivatives	Liability Derivatives
Derivatives designated as hedging instruments:			
Foreign exchange contracts <sup>1</sup>	Other current assets	\$356.2	\$ 18.0
	Other non-current assets	287.8	28.0
Interest rate swap agreements	Other current assets	30.7	—
	Other non-current assets	26.1	4.7
	Other non-current liabilities	0.2	0.9
Derivatives not designated as hedging instruments:			
Foreign exchange contracts <sup>1</sup>	Other current assets	46.0	5.9
	Accrued expenses and other current liabilities	2.9	7.4
Interest rate swap agreements	Other current assets	2.4	2.3
	Other non-current assets	2.4	1.4
Total		\$754.7	\$ 68.6

<sup>1</sup> 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.

The following tables summarize the effect of derivative instruments designated as cash-flow hedging instruments on the Consolidated Statements of Operations for the three-month periods ended September 30, 2016 and 2015:

Three-Month Period Ended September 30, 2016

Instrument	(Effective Portion)		Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income	(Ineffective Portion and Amount Excluded From Effectiveness Testing)	
	Amount of Gain/(Loss) Recognized in OCI on Derivative <sup>1</sup>	Location of Gain/(Loss) Accumulated OCI into Income		Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign exchange contracts	\$ (55.2)	Net product sales	\$ 71.0	Other income (expense), net	\$ 0.2 2
Treasury rate lock agreements	\$ —	Interest (expense)	\$ (1.3 )	Other income (expense), net	\$ —
Interest rate swap agreements	\$ 1.8	Interest (expense)	\$ (0.3 )	Other income (expense), net	\$ —

<sup>1</sup> Net gains of \$206.4 million are expected to be reclassified from Accumulated OCI into income in the next 12 months.

<sup>2</sup> The amount of net gains recognized in income represents \$0.3 million of gains related to the ineffective portion of the hedging relationships and \$0.1 million in losses related to amounts excluded from the assessment of hedge effectiveness (fair value adjustments of forward point amounts).



## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

## Three-Month Period Ended September 30, 2015

Instrument	(Effective Portion)			(Ineffective Portion and Amount Excluded From Effectiveness Testing)		
	Amount of Gain/(Loss) Recognized in OCI on Derivative	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	
Foreign exchange contracts	\$ 10.8	Net product sales	\$ 92.9	Other income (expense), net	\$ 14.8	1
Treasury rate lock agreements	\$ (27.9)	Interest (expense)	\$ (1.1)	Other income (expense), net	\$ (0.2)	2
Interest rate swap agreements	\$ (50.0)	Interest (expense)	\$ (0.4)	Other income (expense), net	\$ 0.3	2

<sup>1</sup> The amount of net gains recognized in income represents \$14.7 million of gains related to amounts excluded from the assessment of hedge effectiveness (fair value adjustments of forward point amounts) and \$0.1 million in gains related to the ineffective portion of the hedging relationships.

<sup>2</sup> The amount of net gain (loss) recognized in income relates to the ineffective portion of the hedging relationships.

The following tables summarize the effect of derivative instruments designated as cash-flow hedging instruments on the Consolidated Statements of Operations for the nine-month periods ended September 30, 2016 and 2015:

## Nine-Month Period Ended September 30, 2016

Instrument	(Effective Portion)			(Ineffective Portion and Amount Excluded From Effectiveness Testing)		
	Amount of Gain/(Loss) Recognized in OCI on Derivative <sup>1</sup>	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	
Foreign exchange contracts	\$ (197.2)	Net product sales	\$ 221.0	Other income (expense), net	\$ 23.1	2

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Treasury rate lock agreements	\$ —	Interest (expense)	\$ (3.9 )	Other income (expense), net	\$ —
Interest rate swap agreements	\$ (46.5 )	Interest (expense)	\$ (1.1 )	Other income (expense), net	\$ —

<sup>1</sup> Net gains of \$206.4 million are expected to be reclassified from Accumulated OCI into income in the next 12 months.

<sup>2</sup> The amount of net gains recognized in income represents \$21.0 million of gains related to amounts excluded from the assessment of hedge effectiveness (fair value adjustments of forward point amounts) and \$2.1 million in gains related to the ineffective portion of the hedging relationships.

Nine-Month Period Ended September 30, 2015

Instrument	(Effective Portion)		Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income	(Ineffective Portion and Amount Excluded From Effectiveness Testing)	
	Amount of Gain/(Loss) Recognized in OCI on Derivative	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income		Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative
Foreign exchange contracts	\$ 298.7	Net product sales	\$ 253.6	Other income (expense), net	\$ 32.2 1
Treasury rate lock agreements	\$ (27.9 )	Interest (expense)	\$ (2.9 )	Other income (expense), net	\$ (0.2 ) 2
Interest rate swap agreements	\$ 6.2	Interest (expense)	\$ (1.1 )	Other income (expense), net	\$ 0.3 2

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

<sup>1</sup> The amount of net gains recognized in income represents \$35.5 million of gains related to amounts excluded from the assessment of hedge effectiveness (fair value adjustments of forward point amounts) and \$3.3 million in losses related to the ineffective portion of the hedging relationships.

<sup>2</sup> The amount of net gain (loss) recognized in income relates to the ineffective portion of the hedging relationships.

The following table summarizes the effect of derivative instruments designated as fair value hedging instruments on the Consolidated Statements of Operations for the three- and nine-month periods ended September 30, 2016 and 2015:

Instrument	Location of Gain Recognized in Income on Derivative	Amount of Gain Recognized in Income on Derivative			
		Three-Month Periods Ended		Nine-Month Periods Ended	
		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest rate swap agreements	Interest (expense)	\$9.4	\$16.2	\$35.7	\$45.5

The following table summarizes the effect of derivative instruments not designated as hedging instruments on the Consolidated Statements of Operations for the three- and nine-month periods ended September 30, 2016 and 2015:

Instrument	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative			
		Three-Month Periods Ended		Nine-Month Periods Ended	
		September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Foreign exchange contracts	Other income (expense), net	\$(11.9)	\$14.4	\$(39.1)	\$69.3
Put options on our common stock	Other income (expense), net	\$—	\$(18.8)	\$7.6	\$(9.9)

The impact of gains and losses on foreign exchange contracts not designated as hedging instruments related to changes in the fair value of assets and liabilities denominated in foreign currencies are generally offset by net foreign exchange gains and losses, which are also included on the Consolidated Statements of Operations in Other income (expense), net for all periods presented. When we enter into foreign exchange contracts not designated as hedging instruments to mitigate the impact of exchange rate volatility in the translation of foreign earnings, gains and losses will generally be offset by fluctuations in the U.S. Dollar translated amounts of each Income Statement account in current and/or future periods.

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

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

Money market funds of \$1.771 billion and \$1.413 billion at September 30, 2016 and December 31, 2015, 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, 2016 and December 31, 2015 were as follows:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
September 30, 2016				
U.S. Treasury securities	\$ 112.7	\$ 0.1	\$ (0.1 )	\$ 112.7
U.S. government-sponsored agency securities	3.5	—	—	3.5
U.S. government-sponsored agency MBS	28.4	0.1	(0.1 )	28.4
Corporate debt - global	171.5	0.8	—	172.3
Asset backed securities	26.7	0.1	—	26.8
Marketable equity securities	870.9	293.7	(162.3 )	1,002.3
Total available-for-sale marketable securities	\$ 1,213.7	\$ 294.8	\$ (162.5 )	\$ 1,346.0
December 31, 2015				
U.S. Treasury securities	\$ 153.0	\$ —	\$ (0.4 )	\$ 152.6
U.S. government-sponsored agency MBS	29.8	0.1	(0.4 )	29.5
Corporate debt - global	219.7	—	(1.6 )	218.1
Asset backed securities	35.6	—	(0.1 )	35.5
Marketable equity securities	811.5	468.1	(43.7 )	1,235.9
Total available-for-sale marketable securities	\$ 1,249.6	\$ 468.2	\$ (46.2 )	\$ 1,671.6

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 MBS include mortgage-backed securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. Corporate debt-global includes obligations issued by investment-grade corporations, including some issues that have been guaranteed by governments and government agencies. Asset backed securities consist of triple-A rated securities with cash flows collateralized by credit card receivables and auto loans. Marketable equity securities consist of investments in publicly traded equity securities. The decrease in net unrealized gains in marketable equity securities during the nine-month period ended September 30, 2016 primarily reflects the decrease in market value for certain equity investments subsequent to December 31, 2015.

Duration periods of available-for-sale debt securities at September 30, 2016 were as follows:

	Amortized Cost	Fair Value
Duration of one year or less	\$ 60.8	\$61.0
Duration of one through three years	270.4	271.0
Duration of three through five years	11.6	11.7
Total	\$ 342.8	\$343.7



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

### 9. Inventory

Inventories as of September 30, 2016 and December 31, 2015 are summarized by major category as follows:

	September 30, 2016	December 31, 2015
Raw materials	\$ 270.3	\$ 201.3
Work in process	103.8	120.0
Finished goods	133.8	122.1
Total	\$ 507.9	\$ 443.4

### 10. Intangible Assets and Goodwill

Intangible Assets: Our finite-lived intangible assets primarily consist of developed product rights and technology obtained from the Pharmion Corp. (Pharmion), Gloucester, Abraxis BioScience, Inc. (Abraxis), Avila and Quantical acquisitions. The remaining weighted-average amortization period for finite-lived intangible assets not fully amortized is approximately 9.4 years. Our indefinite lived intangible assets consist of acquired IPR&D product rights from the Receptos, Nogra and Gloucester acquisitions.

Intangible assets outstanding as of September 30, 2016 and December 31, 2015 are summarized as follows:

September 30, 2016	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net
Amortizable intangible assets:			
Acquired developed product rights	\$3,405.9	\$ (1,632.3 )	\$ 1,773.6
Technology	482.6	(282.5 )	200.1
Licenses	66.9	(25.5 )	41.4
Other	43.4	(30.2 )	13.2
	3,998.8	(1,970.5 )	2,028.3
Non-amortized intangible assets:			
Acquired IPR&D product rights	8,470.6	—	8,470.6
Total intangible assets	\$12,469.4	\$ (1,970.5 )	\$10,498.9

December 31, 2015	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net
Amortizable intangible assets:			
Acquired developed product rights	\$3,405.9	\$ (1,448.3 )	\$ 1,957.6
Technology	565.7	(197.1 )	368.6
Licenses	66.7	(22.3 )	44.4
Other	44.0	(27.1 )	16.9
	4,082.3	(1,694.8 )	2,387.5
Non-amortized intangible assets:			
Acquired IPR&D product rights	8,470.6	—	8,470.6
Total intangible assets	\$12,552.9	\$ (1,694.8 )	\$10,858.1

The gross carrying value of intangible assets decreased during the nine-month period ended September 30, 2016 primarily due to an \$83.1 million impairment charge included in Amortization of acquired intangible assets, to write down the technology platform asset obtained in the acquisition of Avila. The impairment charge was due to revised estimates of the probability-weighted forecasted future cash flows expected to be produced from the technology platform compared to prior estimates. An adjustment was also made to the probability and timing of future potential milestone payments, which resulted in an \$81.1 million reduction in the fair value of our contingent consideration payable to the former shareholders of Avila (see Note 6).

Amortization expense related to intangible assets was \$88.7 million and \$65.0 million for the three-month periods ended September 30, 2016 and 2015, respectively and \$358.7 million and \$195.0 million for the nine-month periods ended September 30, 2016 and 2015, respectively. The amortization expense for the nine-month period ended September 30, 2016 includes the impairment charge related to the Avila technology platform. The amortization expense increase for the three-month period ended September

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

30, 2016 primarily related to the amortization of the technology platform received in the October 2015 acquisition of Quantice and a reduction in the estimated useful lives of intangible assets related to the acquisition of Gloucester following the grant to Fresenius Kabi USA, LLC of a non-exclusive, royalty-free sublicense to manufacture and market a generic version of romidepsin for injection as of February 1, 2018. See Note 18 of Notes to Consolidated Financial Statements in our 2015 Annual Report on Form 10-K for additional details related to the sublicense to manufacture and market a generic version of romidepsin. The amortization expense increase for the nine-month period ended September 30, 2016 primarily related to the impairment of the technology platform noted above as well as the factors that were noted for the three month period. Assuming no changes in the gross carrying amount of intangible assets, the future annual amortization expense, including the 2016 impairment charge, related to intangible assets is expected to be approximately \$447.3 million in 2016, \$354.4 million in 2017, \$252.4 million in 2018, \$155.5 million in 2019, and \$154.2 million in 2020.

Goodwill: At September 30, 2016, our goodwill related to the 2015 acquisitions of Receptos and Quantice, the 2014 acquisition of Nogra, the 2012 acquisition of Avila, the 2010 acquisitions of Abraxis and Gloucester, the 2008 acquisition of Pharmion and the 2004 acquisition of Penn T Limited.

The carrying value of goodwill decreased by \$13.2 million to \$4.866 billion as of September 30, 2016 compared to December 31, 2015 due to a \$10.7 million measurement period adjustment related to the acquisition of Quantice and \$2.5 million related to the sale of our LifebankUSA business (see Note 3).

## 11. Debt

Short-Term Borrowings and Current Portion of Long-Term Debt: We had no outstanding short-term borrowing as of September 30, 2016 or December 31, 2015. The current portion of long-term debt outstanding as of September 30, 2016 and December 31, 2015 includes:

	September 30, 2016	December 31, 2015
1.900% senior notes due 2017	\$ 501.0	\$ —

Long-Term Debt: Summarized below are the carrying values of our senior notes at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
1.900% senior notes due 2017	\$—	\$499.9
2.125% senior notes due 2018	997.6	996.7
2.300% senior notes due 2018	402.2	400.2
2.250% senior notes due 2019	510.3	502.6
2.875% senior notes due 2020	1,492.3	1,490.9
3.950% senior notes due 2020	519.7	504.9
3.250% senior notes due 2022	1,055.9	1,010.5
3.550% senior notes due 2022	993.2	992.4
4.000% senior notes due 2023	745.2	706.0
3.625% senior notes due 2024	1,001.1	994.9
3.875% senior notes due 2025	2,483.8	2,461.8
5.700% senior notes due 2040	247.2	247.2
5.250% senior notes due 2043	392.9	392.8
4.625% senior notes due 2044	986.8	986.6



5.000% senior notes due 2045	1,974.3	1,974.0
Total long-term debt	\$13,802.5	\$14,161.4

At September 30, 2016, the fair value of our outstanding Senior Notes was \$15.207 billion and represented a Level 2 measurement within the fair value measurement hierarchy.

From time to time, we have used treasury rate locks and forward starting interest rate swap contracts to hedge against changes in interest rates in anticipation of issuing fixed-rate notes. As of September 30, 2016, a balance of \$62.6 million in losses remained

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

in accumulated OCI related to the settlement of these derivative instruments and will be recognized as interest expense over the life of the notes.

At December 31, 2015, we were party to pay-floating, receive-fixed interest rate swap contracts designated as fair value hedges of fixed-rate notes as described in Note 7. Our swap contracts outstanding at December 31, 2015 effectively converted the hedged portion of our fixed-rate notes to floating rates. From time to time we terminate the hedging relationship on certain of our swap contracts by settling the contracts or by entering into offsetting contracts. Any net proceeds received or paid in these settlements are accounted for as a reduction or increase of current and future interest expense associated with the previously hedged notes. As of September 30, 2016 and December 31, 2015 we had balances of \$182.5 million and \$33.1 million, respectively, of unamortized gains recorded as a component of our debt as a result of past swap contract settlements. See Note 7 for additional details related to interest rate swap contract activity.

**Commercial Paper:** In April 2016, our Board of Directors authorized an increase in the maximum amount of commercial paper issuable to \$2.000 billion. As of September 30, 2016 and December 31, 2015, we had available capacity to issue up to \$2.000 billion and \$1.750 billion of Commercial Paper, respectively, and there were no borrowings under the program.

**Senior Unsecured Credit Facility:** We maintain a senior unsecured revolving credit facility (Credit Facility) that provides revolving credit in the aggregate amount of \$2.000 billion which was increased from \$1.750 billion in April 2016. In April 2016, the term of the Credit Facility was also extended from April 17, 2020 to April 17, 2021. Amounts may be borrowed in U.S. Dollars for general corporate purposes. The Credit Facility currently serves as backup liquidity for our Commercial Paper borrowings. At September 30, 2016 and December 31, 2015 there was no outstanding borrowing against the Credit Facility. The Credit Facility contains affirmative and negative covenants, including certain customary financial covenants. We were in compliance with all financial covenants as of September 30, 2016.

## 12. Share-Based Compensation

We have a stockholder-approved stock incentive plan, the 2008 Stock Incentive Plan (Amended and Restated as of April 15, 2015, as amended effective June 15, 2016) (Plan) that provides for the granting of options, restricted stock units (RSUs), performance stock units (PSUs) and other share-based awards to our employees, officers and non-employee directors. The Management Compensation and Development Committee of the Board of Directors (Compensation Committee) may determine the type, amount and terms, including vesting, of any awards made under the Plan.

On June 15, 2016, our stockholders approved an amendment of the Plan, which included the following key modifications: adoption of an aggregate share reserve of 265,263,282 shares of Common Stock, which includes 17,500,000 new shares of Common Stock; a limitation on the aggregate equity compensation that may be provided to non-employee members of the Board of Directors; and an amendment that includes clarifying changes to employee award provisions regarding vesting acceleration on a change in control or certain employment terminations events and the applicability of the five percent limitation on such awards. The term of the plan is through April 15, 2025.

The following table summarizes the components of share-based compensation expense in the Consolidated Statements of Operations for the three- and nine-month periods ended September 30, 2016 and 2015:

	Three-Month	Nine-Month
	Periods Ended	Periods Ended

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	September 30,		September 30,	
	2016	2015	2016	2015
Cost of goods sold (excluding amortization of acquired intangible assets)	\$7.4	\$8.5	\$25.0	\$23.3
Research and development	63.0	65.2	189.1	185.0
Selling, general and administrative	77.3	76.2	237.6	218.1
Total share-based compensation expense	147.7	149.9	451.7	426.4
Tax benefit related to share-based compensation expense	40.6	42.8	124.7	124.0
Reduction in income	\$107.1	\$107.1	\$327.0	\$302.4

The following table summarizes the activity for stock options, RSUs and PSUs for the nine-month period ended September 30, 2016 (in millions unless otherwise noted):

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## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

	Stock Options	Restricted Stock Units	Performance- Based Restricted Stock Units (in thousands)
Outstanding at December 31, 2015	75.7	7.7	334
Changes during the Year:			
Granted	8.3	1.4	203
Exercised / Released	(6.6 )	(2.7 )	(72 )
Forfeited	(1.9 )	(0.3 )	(29 )
Outstanding at September 30, 2016	75.5	6.1	436

Total compensation cost related to unvested awards not yet recognized and the weighted-average periods over which the awards are expected to be recognized at September 30, 2016 were as follows (dollars in millions):

	Stock Options	Restricted Stock Units	Performance- Based Restricted Stock Units
Unrecognized compensation cost	\$ 605.3	\$ 287.4	\$ 26.9
Expected weighted-average period in years of compensation cost to be recognized	2.0	1.4	1.8

## 13. Income Taxes

We regularly evaluate the likelihood of the realization of our deferred tax assets and reduce the carrying amount of those deferred tax assets by a valuation allowance to the extent we believe a portion will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carryforward periods available to us for tax reporting purposes and other relevant factors. Significant judgment is required in making this assessment.

Our tax returns are under routine examination in many taxing jurisdictions. The scope of these examinations includes, but is not limited to, the review of our taxable presence in a jurisdiction, our deduction of certain items, our claims for research and development credits, our compliance with transfer pricing rules and regulations and the inclusion or exclusion of amounts from our tax returns as filed. Our U.S. federal income tax returns have been audited by the Internal Revenue Service (IRS) through the year ended December 31, 2008. Tax returns for the years ended December 31, 2009, 2010 and 2011 are currently under examination by the IRS. We are also subject to audits by various state and foreign taxing authorities, including most U.S. states and countries where we have operations.

We regularly reevaluate our 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. We believe that our 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 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. We apply a variety of methodologies in making these estimates and assumptions, which include studies performed by

independent economists, advice from industry and subject matter experts, evaluation of public actions taken by the IRS and other taxing authorities, as well as our 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, our results of operations could be materially impacted.

Unrecognized tax benefits, generally represented by liabilities on the Consolidated Balance Sheets 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. We account for interest and potential penalties related to uncertain tax positions as part of our provision for income taxes. For the nine-month period ended September 30, 2016 gross unrecognized tax benefits increased by \$45.9 million, primarily from an increase in unrecognized tax benefits related to current year operations of \$53.2 million and accrued interest of \$4.1 million, partially offset by a decrease in unrecognized tax benefits related to settlements of tax positions taken in prior years

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of \$11.4 million. The liability for unrecognized tax benefits is expected to increase in the next 12 months relating to operations occurring in that period. Any settlements of examinations with taxing authorities or statute of limitations expirations would likely result in a decrease in our liability for unrecognized tax benefits and a corresponding increase in taxes paid or payable and/or a decrease in income tax expense. It is reasonably possible that the amount of the liability for unrecognized tax benefits could change by a significant amount during the next twelve-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 possible change cannot be made until issues are further developed or examinations close. Our estimates of tax benefits and potential tax benefits may not be representative of actual outcomes and variation from such estimates could materially affect our consolidated financial statements in the period of settlement or when the statutes of limitations expire.

#### 14. Collaboration Agreements

We enter into collaborative arrangements for the research and development, license, manufacture and/or commercialization of products and/or product candidates. In addition, we also acquire products, product candidates and research and development technology rights and establish research and development collaborations with third parties to enhance our strategic position within our industry by strengthening and diversifying our research and development capabilities, product pipeline and marketed product base. These arrangements may include non-refundable, upfront payments, payments for options to acquire rights to products and product candidates and other rights, as well as potential development, regulatory and commercial performance milestone payments, cost sharing arrangements, royalty payments, profit sharing and equity investments. These arrangements could include obligations for us to make equity investments in the event of an initial public offering of equity by our partners. The activities under these collaboration agreements are performed with no guarantee of either technological or commercial success. Although we do not consider any individual alliance to be material, certain of the more notable alliances are described below. See Note 17 of Notes to Consolidated Financial Statements included in our 2015 Annual Report on Form 10-K for a description of certain other collaboration agreements entered into prior to January 1, 2016. The following is a brief description of significant developments in the relationships between Celgene and our collaboration partners during the nine months ended September 30, 2016:

**Agios Pharmaceuticals, Inc. (Agios):** During 2010, we entered into a discovery and development collaboration and license agreement with Agios (2010 Collaboration Agreement) that focused on cancer metabolism targets and the discovery, development and commercialization of associated therapeutics. We had an exclusive option to license any potential products that resulted from the Agios cancer metabolism research platform through the end of phase I clinical trials.

With respect to each product that we chose to license, Agios could receive up to approximately \$120.0 million upon achievement of certain milestones and other payments plus royalties on worldwide sales, and Agios may also participate in the development and commercialization of certain products in the United States.

In June 2014, we exercised our option to license enasidenib (AG-221) from Agios on an exclusive worldwide basis, with Agios retaining the right to conduct a portion of commercialization activities for AG-221 in the United States. AG-221 is currently in a phase I/II study in patients that present an isocitrate dehydrogenase-2 (IDH2) mutation with advanced hematologic malignancies, including acute myeloid leukemia (AML).

In January 2015, we exercised our option to an exclusive license from Agios to AG-120, an orally available, selective inhibitor of the mutated isocitrate dehydrogenase-1 (IDH1) protein for the treatment of patients with cancers that

harbor an IDH1 mutation, outside the United States, with Agios retaining the right to conduct development and commercialization within the United States. In May 2016, we agreed to return to Agios the AG-120 lead development candidate. As a result, Agios obtained global rights to AG-120 and the IDH1 program. Neither Agios nor Celgene will have any continuing financial obligation, including royalties or milestone payments, to the other concerning AG-120 or the IDH1 program.

In April 2015, we and Agios entered into a new joint worldwide development and profit share collaboration for AG-881. AG-881 is a small molecule that has shown in preclinical studies to fully penetrate the blood brain barrier and inhibit IDH1 and IDH2 mutant cancer cells. Under the terms of the AG-881 collaboration, Agios received an initial payment of \$10.0 million and is eligible to receive contingent payments of up to \$70.0 million based on the attainment of specified regulatory goals. The upfront payment to Agios was accounted for as \$9.0 million of upfront research and development collaboration expense and \$1.0 million of prepaid manufacturing rights recorded on the balance sheet. We and Agios will jointly collaborate on the worldwide development program for AG-881, sharing development costs equally. The two companies will share profits equally, with Celgene recording commercial sales worldwide. Agios will lead commercialization in the U.S. with both companies sharing equally in field-based commercial

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activities, and we will lead commercialization ex-U.S. with Agios providing one third of field-based commercial activities in the major European Union (EU) markets.

In May 2016, we and one of our subsidiaries entered into a new global collaboration agreement with Agios (2016 Collaboration Agreement), focused on the research and development of immunotherapies against certain metabolic targets that exert their antitumor efficacy primarily via the immune system. In addition to new programs identified under the 2016 Collaboration Agreement, we and Agios have also agreed that all future development and commercialization of two programs that were conducted under the 2010 Collaboration Agreement will now be governed by the 2016 Collaboration Agreement.

During the term of the 2016 Collaboration Agreement, Agios plans to conduct research programs focused on discovering compounds that are active against metabolic targets in the immuno-oncology (IO) field. The initial four-year term will expire in May 2020. We may extend the term for up to two additional one-year terms or in specified cases, up to four additional years.

Under the 2016 Collaboration Agreement, Agios has granted us exclusive options to obtain development and commercialization rights for each program that we have designated for further development. We may exercise each such option beginning on the designation of a development candidate for such program (or on the designation of such program as a continuation program) and ending on the earlier of the end of a specified period after Agios has furnished us with specified information for such program, or January 1, 2030. Programs that have applications in the inflammation or autoimmune (I&I) field that may result from the 2016 Collaboration Agreement will also be subject to the exclusive options described above.

Agios will retain rights to any program that we do not designate for further development or as to which we do not exercise our option.

Under the terms of the 2016 Collaboration Agreement, following our exercise of an option with respect to a program, we and Agios (and, if applicable, one of its affiliates) will enter into either a co-development and co-commercialization agreement if such program is in the IO field, typically with a 50/50 profit and cost share, or a license agreement if such program is in the I&I field.

Under the terms of the 2016 Collaboration Agreement, we made an initial upfront payment to Agios in the amount of \$200.0 million for the initial four-year term. We have specified rights to extend the term by paying a per-year extension fee. We will pay Agios a designation fee for each program that we designate for further development and for each continuation program. For each program as to which we exercise our option to develop and commercialize, subject to antitrust clearance, we will pay Agios an option exercise fee of at least \$30.0 million for any designated development program and for any continuation programs, plus up to \$169.0 million (or up to \$209.0 million for one program designated by Celgene which will have a profit and cost share of 65 percent for Celgene and 35 percent for Agios) in clinical and regulatory milestone payments (and in the case of licensed programs in the I&I field, up to \$386.0 million in clinical, regulatory and commercial milestone payments, as well as double-digit tiered royalties on any net sales). Agios will remain responsible for the initial phase I dose escalation study for each program under the 2016 Collaboration Agreement, including associated costs.

bluebird bio, Inc. (bluebird): In June 2015, we amended and restated the March 2013 collaboration agreement with bluebird. The amended and restated collaboration will focus on the discovery, development and commercialization of novel disease-altering gene therapy product candidates targeting BCMA. BCMA is a cell surface protein that is expressed in normal plasma cells and in most multiple myeloma cells, but is absent from other normal tissues. The



collaboration applies gene therapy technology to modify a patient's own T-cells, known as chimeric antigen receptor (CAR) T-cells, to target and destroy cancer cells that express BCMA. We have an option to license any anti-BCMA products resulting from the collaboration after the completion of a phase I clinical study by bluebird.

Under the amended and restated collaboration agreement we made an additional \$25.0 million payment for bluebird to develop the lead anti-BCMA product candidate (bb2121) through a phase I clinical study and to develop next-generation anti-BCMA product candidates. The payment was recorded as prepaid research and development on the balance sheet and is being recognized as expense as development work is performed. Upon exercising our option to license a product and achievement of certain milestones, we may be obligated to pay up to \$230.0 million per licensed product in aggregate potential option fees and clinical and regulatory milestone payments. bluebird also has the option to participate in the development and commercialization of any licensed products resulting from the collaboration through a 50/50 co-development and profit share in the United States in exchange for a reduction of milestone payments. Royalties would also be paid to bluebird in regions where there is no profit share, including in the United States, if bluebird declines to exercise their co-development and profit sharing rights. In February 2016, we exercised our option to license bb2121 and made a corresponding \$10.0 million license payment to bluebird.

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We have the ability to terminate the collaboration at our discretion upon 90 days written notice to bluebird. If a product is optioned, the parties will enter into a pre-negotiated license agreement and potentially a co-development agreement should bluebird exercise its option to participate in the development and commercialization in the United States. The license agreement, if not terminated sooner, would expire upon the expiration of all applicable royalty terms under the agreement with respect to the particular product, and the co-development agreement, if not terminated sooner, would expire when the product is no longer being developed or commercialized in the United States. Upon the expiration of a particular license agreement, we will have a fully paid-up, royalty-free license to use bluebird intellectual property to manufacture, market, use and sell such licensed product.

Juno Therapeutics, Inc. (Juno): In June 2015, we announced a collaboration and investment agreement with Juno for the development and commercialization of immunotherapies for cancer and autoimmune diseases. The collaboration and investment agreement became effective on July 31, 2015. Under the terms of the agreement, we have the option to be the commercialization partner for Juno's oncology and cell therapy auto-immune product candidates, including Juno's CD19 and CD22 directed CAR T-cell product candidates. For Juno-originated programs co-developed under the collaboration, (a) Juno will be responsible for research and development in North America and will retain commercialization rights in those territories, (b) we will be responsible for development and commercialization in the rest of the world, and will pay Juno a royalty on sales in those territories, and (c) we have certain co-promotion options for global profit sharing arrangements under which the parties will share worldwide expenses and profits equally, except in China.

Juno will have the option to enter into co-development and co-commercialization arrangements on certain Celgene-originated development candidates that target T-cells. For any such Celgene-originated programs co-developed under the collaboration, (a) the parties will share global costs and profits, with 70 percent allocated to us and 30 percent allocated to Juno, and (b) we will lead global development and commercialization, subject to a Juno co-promote option in the United States and certain EU territories.

Upon closing, we made a \$1.000 billion payment to Juno and received 9.1 million shares of Juno common stock, amounting to approximately 9 percent of Juno's outstanding common stock. The value of our investment in Juno common stock of \$424.9 million was recorded as an available-for sale marketable security based on the market price of the stock on the date of closing and the remaining portion of the \$1.000 billion payment, which consists of both a \$150.0 million upfront payment and a \$425.1 million premium paid on our equity investment, was recorded to research and development expense.

The collaboration agreement has an initial term of ten years. If the parties enter into any pre-negotiated license or co-commercialization agreement during the initial term, the collaboration agreement will continue until all such license and co-commercialization agreements have expired. The collaboration agreement may be terminated at our discretion upon 120 days' prior written notice to Juno and by either party upon material breach of the other party, subject to cure periods.

In April 2016, we exercised our option to develop and commercialize Juno's CD19 program outside North America and China and entered into a pre-negotiated license agreement with Juno with respect to such program by making a \$50.0 million payment for such license.

Acetylon Pharmaceuticals, Inc. (Acetylon): In May 2016, our collaboration and option agreement with Acetylon expired. As a result, we do not have an exclusive right to acquire Acetylon or any right to receive any research and development services from Acetylon or have any obligation to pay any milestone payment under that agreement. We have retained our equity interest in Acetylon.

Jounce Therapeutics, Inc. (Jounce): In July 2016, we entered into a collaboration agreement with Jounce for the development and commercialization of immunotherapies for cancer, including Jounce's lead product candidate, JTX-2011, targeting ICOS (the Inducible T cell CO-Stimulator), up to four early stage programs to be selected from a defined pool of B cell, T regulatory cell and tumor-associated macrophage targets emerging from Jounce's research platform, and a Jounce checkpoint immuno-oncology program. Under the terms of the collaboration agreement we made an initial upfront payment to Jounce in the amount of \$237.6 million for the initial four year term. Jounce is also eligible to receive regulatory, development, and net sales milestone payments.

We have the right to opt into the collaboration programs at defined stages of development. Following opt-in, the parties will share U.S. profits and losses on the collaboration programs as follows: (a) Jounce will retain a 60 percent U.S. profit share of JTX-2011, with 40 percent allocated to us; (b) Jounce will retain a 25 percent U.S. profit share on the first additional program, with 75 percent allocated to us; and (c) the parties will equally share U.S. profits on up to three additional programs. Also, following opt-in to each of the foregoing programs, we will receive exclusive ex-U.S. commercialization rights with respect to such program, Jounce will be eligible to receive tiered royalties on sales outside the United States, and development costs will be shared by the parties in a

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manner that is commensurate with their respective product rights under such program. The parties will equally share global profits from the checkpoint program.

The collaboration agreement has an initial term of 4 years, which may be extended up to three additional years. If the parties enter into any pre-negotiated license or co-commercialization agreement during the initial term, the collaboration agreement will continue until all such license and co-commercialization agreements have expired. The collaboration agreement may be terminated at our discretion upon 120 days prior written notice to Jounce and by either party upon material breach of the other party, subject to cure periods.

Other Potential Future Milestone Payments: In addition to the collaboration arrangements described above, we entered into a collaborative arrangement during 2016 that includes the potential for a future milestone payment of \$85.0 million related to the attainment of a specified regulatory milestone. Our obligation to fund this effort is contingent upon our continued involvement in the program and/or the lack of any adverse events which could cause the discontinuance of the program.

A financial summary of certain period activity related to our collaboration agreements is presented below<sup>1,2</sup>:

Three-Month Periods Ended September 30,  
 Research and Development Expense

	Upfront Fees	Milestones	Extension/Termination of Agreements	Amortization of Prepaid Research and Development	Equity Investments Made During Period
Agios	2016 \$—	\$—	\$—	\$0.3	\$—
bluebird	2016 —	—	—	2.1	—
	2015 —	—	—	2.1	—
Jounce	2016 237.6	—	—	—	23.6
Juno <sup>3</sup>	2016 —	—	—	—	—
	2015 575.1	—	—	—	424.9
Nurix	2016 —	—	—	—	—
	2015 149.8	—	—	—	17.0
Other Collaboration Arrangements	2016 86.0	—	8.8	10.4	15.0
	2015 26.9	—	10.0	6.8	—

Nine-Month Periods Ended September 30,  
 Research and Development Expense

	Upfront Fees	Milestones	Extension/Termination of Agreements	Amortization of Prepaid Research and Development	Equity Investments Made During Period
Agios	2016 \$200.0	\$25.0	\$—	\$0.5	\$—
	2015 9.0	—	—	—	—
AstraZeneca	2016 —	—	—	—	—
	2015 450.0	—	—	—	—
bluebird	2016 10.0	—	—	6.3	—
	2015 —	—	—	2.8	—
Jounce	2016 237.6	—	—	—	23.6
Juno <sup>3</sup>	2016 50.0	—	—	—	41.0

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	2015	575.1	—	—	—	424.9
Lycera	2016	—	—	—	—	—
	2015	69.5	—	—	—	10.0
Nurix	2016	—	—	—	—	—
	2015	149.8	—	—	—	17.0
Other						
Collaboration	2016	190.0	50.5	8.8	15.8	52.0
Arrangements	2015	86.9	8.0	18.1	18.9	50.0

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A financial summary of the period-end balances related to our collaboration agreements is presented below:

	Balances as of:	Intangible Asset Balance	Equity Investment Balance	Percentage of Outstanding Equity
Acceleron	September 30, 2016	\$—	\$195.9	14%
	December 31, 2015	—	224.9	14%
AgiOS	September 30, 2016	0.5	276.9	13%
	December 31, 2015	1.0	340.4	13%
bluebird	September 30, 2016	13.9	N/A	N/A
	December 31, 2015	20.2	N/A	N/A
Jounce	September 30, 2016	—	23.6	11%
	December 31, 2015	—	N/A	N/A
Juno	September 30, 2016	—	308.4	10%
	December 31, 2015	—	401.8	9%
Lycera	September 30, 2016	3.0	10.0	8%
	December 31, 2015	3.0	10.0	8%
Nurix	September 30, 2016	0.2	17.0	11%
	December 31, 2015	0.2	17.0	11%
Other Collaboration Arrangements	September 30, 2016	32.3	210.1	N/A
	December 31, 2015	48.2	335.0	N/A

Activity and balances are presented specifically for notable new collaborations and for those collaborations which we have described in detail in our 2015 Annual Report on Form 10-K if there has been new significant activity during the periods presented. Amounts related to collaborations that are not specifically presented are included in the aggregate as Other Collaboration Arrangements.

In addition to the expenses noted in the tables above, we may also incur expenses for collaboration agreement related activities that are managed or funded by us.

Our equity investment in Juno made in the first quarter of 2016 was transacted at a price per share that exceeded the market value of Juno's publicly traded common stock on the transaction closing date, resulting in an expense for the premium of \$6.0 million that was recorded in the Consolidated Statements of Operations as Other income (expense), net in the first quarter of 2016.

## 15. Commitments and Contingencies

**Collaboration Arrangements and Purchased Compounds:** We have entered into certain research and development collaboration agreements 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. In September 2016, we acquired compounds as part of our purchase of EngMab in a transaction that included potential future development, regulatory and commercial milestones. Our obligation to fund these efforts/milestones is contingent upon our 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 for the potential future achievement of these targets in our accompanying Consolidated Balance Sheets at September 30, 2016 and December 31, 2015. See Note 3 for additional details related to our purchase of EngMab and Note 14 for additional details related to collaboration arrangements.

**Contingencies:** We believe we maintain insurance coverage adequate for our current needs. Our 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. We review the effects of such laws and regulations on our operations and modify our operations as appropriate. We believe we are in substantial compliance with all applicable environmental laws and regulations.

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We have ongoing customs, duties and VAT examinations in various countries that have yet to be settled. Based on our knowledge of the claims and facts and circumstances to date, none of these matters, individually or in the aggregate, are deemed to be material to our financial condition.

#### 16. Legal Proceedings

Like many companies in our industry, we have from time to time received inquiries and subpoenas and other types of information requests from government authorities and others and we have been subject to claims and other actions related to our business activities. While the ultimate outcome of investigations, inquiries, information requests and legal proceedings is difficult to predict, adverse resolutions or settlements of those matters may result in, among other things, modification of our business practices, product recalls, costs and significant payments, which may have a material adverse effect on our results of operations, cash flows or financial condition.

Pending patent proceedings include challenges to the scope, validity and/or enforceability of our patents relating to certain of our products, uses of products or processes. Further, we are subject to claims of third parties that we infringe their patents covering products or processes. Although we believe we have substantial defenses to these challenges and claims, there can be no assurance as to the outcome of these matters and an adverse decision in these proceedings could result in one or more of the following: (i) a loss of patent protection, which could lead to a significant reduction of sales that could materially affect future results of operations, (ii) our inability to continue to engage in certain activities, and (iii) significant liabilities, including payment of damages, royalties and/or license fees to any such third party.

Among the principal matters pending are the following:

##### Patent Related Proceedings:

REVLIMID®: In 2012, our European patent EP 1 667 682 (the '682 patent) relating to certain polymorphic forms of lenalidomide expiring in 2024 was opposed in a proceeding before the European Patent Office (EPO) by Generics (UK) Ltd. and Teva Pharmaceutical Industries Ltd. On July 21, 2015, the EPO determined, based primarily on procedural grounds, that the '682 patent was not valid. Celgene appealed the EPO ruling to the EPO Board of Appeal, which stays any revocation of the patent until the appeal is finally adjudicated. No appeal hearing date has been set. We do not anticipate a decision from the EPO Board of Appeal for several years and intend to vigorously defend all of our intellectual property rights.

In 2010, Celgene's European patent EP 1 505 973 (the '973 patent) relating to certain uses of lenalidomide expiring in 2023 was opposed in a proceeding before the EPO by Synthon B.V. and an anonymous party. On February 25, 2013, the EPO determined that the '973 patent was not valid. Celgene appealed the EPO ruling to the EPO Board of Appeal, which stays any revocation of the patent until the appeal is finally adjudicated. No appeal hearing date has been set. We do not anticipate a decision from the EPO Board of Appeal for several years and intend to vigorously defend all of our intellectual property rights.

We believe that our patent portfolio for lenalidomide in Europe, including the composition of matter patent which expires in 2022, is strong and defensible. Although we believe that we will prevail in the EPO proceedings, in the event these patents are found not to be valid, we expect that we will still have patent protection in the EU for lenalidomide through at least 2022.



We received a Notice Letter dated September 9, 2016 from Dr. Reddy's Laboratories (DRL) notifying us of DRL's ANDA which contains Paragraph IV certifications against U.S. Patent Nos. 7,456,800, 7,855,217, 7,968,569, 8,530,498, 8,648,095, 9,101,621, and 9,101,622 that are listed in the Orange Book for REVLIMID®. DRL is seeking to manufacture and market a generic version of 2.5mg, 5mg, 10mg, 15mg, 20mg, and 25mg REVLIMID® (lenalidomide) capsules.

On October 20, 2016, we filed an infringement action against DRL in the United States District Court for the District of New Jersey. As a result of the filing of our action, the FDA cannot grant final approval of DRL's ANDA until the earlier of (i) a final decision that each of the patents is invalid, unenforceable, and/or not infringed; or (ii) March 9, 2019. DRL has not yet responded to the complaint.

POMALYST®: In 2015, our European patent EP 2 105 135 (the '135 patent) relating to certain pharmaceutical compositions for treating cancer expiring in 2023 was opposed in a proceeding before the European Patent Office (EPO) by Generics (UK) Ltd., Accord Healthcare Ltd., Hexal AG, IPS Intellectual Property Services, Syntho B.V., and Actavis Group PTC EHF. A hearing at the EPO is scheduled for December 19 and 20, 2016. We do not anticipate a formal decision from the EPO until early 2017. Regulatory Exclusivity for POMALYST® will expire in Europe in 2023. We have applied for Supplementary Protection Certificates

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(SPC's) in each member state in Europe, which if granted, will extend the patent term of the '135 patent by five years. The patent will then expire in 2028 in each member state that grants the SPC assuming the '135 patent is deemed to be valid in the EPO proceeding.

THALOMID® (thalidomide): We received a Notice Letter dated December 18, 2014 from Lannett Holdings, Inc. (Lannett) notifying us of Lannett's Abbreviated New Drug Application (ANDA) which contains Paragraph IV certifications against U.S. Patent Nos. 5,629,327; 6,045,501; 6,315,720; 6,561,976; 6,561,977; 6,755,784; 6,869,399; 6,908,432; 7,141,018; 7,230,012; 7,435,745; 7,874,984; 7,959,566; 8,204,763; 8,315,886; 8,589,188; and 8,626,531 that are listed in the Orange Book for THALOMID® (thalidomide). Lannett is seeking to market a generic version of 50mg, 100mg, 150mg and 200mg of THALOMID® capsules.

On January 30, 2015, we filed an infringement action against Lannett in the United States District Court for the District of New Jersey. As a result of the filing of our action, the U.S. Food and Drug Administration (FDA) cannot grant final approval of Lannett's ANDA until the earlier of (i) a final decision that each of the patents is invalid, unenforceable, and/or not infringed; or (ii) June 22, 2017. On March 27, 2015, Lannett filed a motion to dismiss our complaint for lack of personal jurisdiction and we filed a response to the motion on April 20, 2015. A hearing was held on July 27, 2015 and the Court decided to administratively terminate the motion to dismiss in order to allow us to conduct jurisdictional discovery. On November 17, 2015, Lannett withdrew its motion to dismiss.

On December 8, 2015, Lannett filed an answer and counterclaims asserting that the patents-in-suit are invalid, unenforceable, and/or not infringed and on January 19, 2016 we filed a reply to Lannett's counterclaims. On April 18, 2016, Lannett amended its answer to narrow the scope of its unenforceability counterclaims and we filed an amended reply on May 5, 2016. Fact discovery is currently set to close on April 6, 2017. Markman briefing is currently scheduled to be completed on February 21, 2017. The Court has not yet set dates for a Markman hearing, close of expert discovery, or trial.

ABRAXANE® (paclitaxel protein-bound particles for injectable suspension) (albumin bound): We received a Notice Letter dated February 23, 2016 from Actavis LLC (Actavis) notifying us of Actavis's ANDA which contains Paragraph IV certifications against U.S. Patent Nos. 7,820,788; 7,923,536; 8,138,229; and 8,853,260 that are listed in the Orange Book for ABRAXANE®. Actavis is seeking to manufacture and market a generic version of ABRAXANE® (paclitaxel protein-bound particles for injectable suspension) (albumin bound) 100 mg/vial.

On April 6, 2016, we filed an infringement action against Actavis in the United States District Court for the District of New Jersey. As a result of the filing of our action, the FDA cannot grant final approval of Actavis's ANDA until the earlier of (i) a final decision that each of the patents is invalid, unenforceable, and/or not infringed; or (ii) August 24, 2018. On May 3, 2016, Actavis filed an answer and counterclaims asserting that the patents-in-suit are invalid and/or not infringed. On June 10, 2016 we filed a reply to Actavis's counterclaims. Fact discovery is currently set to close on May 15, 2017. Markman briefing is currently scheduled to be completed on April 4, 2017. Expert discovery is currently set to close on November 17, 2017. The Court has not yet set dates for a Markman hearing or trial.

Proceedings involving the USPTO:

Under the America Invents Act (AIA), any person may seek to challenge an issued patent by petitioning the United States Patent and Trademark Office (USPTO) to institute a post grant review. On April 23, 2015, we were informed that Coalition for Affordable Drugs VI LLC filed petitions for Inter Partes Review (IPRs) challenging the validity of Celgene's patents U.S. 6,045,501 and U.S. 6,315,720 covering certain aspects of our REMS program. On October 27, 2015, the USPTO Patent Trial and Appeal Board (PTAB) instituted IPR proceedings relating to these patents. An oral

hearing was held on July 21, 2016; the decisions, rendered on October 26, 2016, held that the '501 and '720 patents are invalid, primarily due to obviousness in view of certain publications.

An appeal of the final written decisions of the PTAB can be made to the United States Court of Appeals for the Federal Circuit. The notice of appeal must be filed within 63 days of the decision, unless we choose to move for a rehearing at the PTAB, in which case the notice of appeal is due within 63 days of the PTAB's action on any rehearing request. The '501 and '720 patents remain valid and enforceable pending any rehearing and/or appeal. We retain other patents covering certain aspects of our REMS program, as well as other patents that cover our products that use our REMS system. We are evaluating the decisions, and we intend to continue to vigorously defend our intellectual property rights.

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

Other Proceedings:

In 2009, we received a Civil Investigative Demand (CID) from the U.S. Federal Trade Commission (FTC) seeking documents and other information relating to requests by manufacturers of generic drugs to purchase our patented REVLIMID® and THALOMID® brand drugs in order for the FTC to evaluate whether there may be reason to believe that we have engaged in unfair methods of competition. In 2010, the State of Connecticut issued a subpoena referring to the same issues raised by the 2009 CID. Also in 2010, we received a second CID from the FTC relating to this matter. We continue to cooperate with the FTC and State of Connecticut investigations.

On April 3, 2014, Mylan Pharmaceuticals Inc. (Mylan) filed a lawsuit against us in the United States District Court for the District of New Jersey alleging that we violated various federal and state antitrust and unfair competition laws by allegedly refusing to sell samples of our THALOMID® and REVLIMID® brand drugs so that Mylan can conduct the bioequivalence testing necessary for ANDAs to be submitted to the FDA for approval to market generic versions of these products. Mylan is seeking injunctive relief, damages and declaratory judgment. We filed a motion to dismiss Mylan's complaint on May 25, 2014. Mylan filed its opposition to our motion to dismiss on June 16, 2014. The Federal Trade Commission filed amicus curiae brief in opposition to our motion to dismiss on June 17, 2014. On December 22, 2014, the court granted Celgene's motion to dismiss (i) Mylan's claims based on Section 1 of the Sherman Act (without prejudice), and (ii) Mylan's related claims arising under the New Jersey Antitrust Act. The court denied our motion to dismiss the rest of the claims which primarily relate to Section 2 of the Sherman Act. On January 6, 2015 we filed a motion to certify for interlocutory appeal the order denying our motion to dismiss with respect to the claims relating to Section 2 of the Sherman Act, which appeal was denied by the United State Court of Appeals for the Third Circuit on March 5, 2015. On January 20, 2015, we filed an answer to Mylan's complaint. Fact discovery closed on April 8, 2016 and expert discovery closed on October 24, 2016. No trial date has been set. We intend to vigorously defend against Mylan's claims.

A civil qui tam action brought by a former Celgene employee is pending in the U.S. District Court for the Central District of California (the Brown Action). The complaint was unsealed in February 2014 when the United States Department of Justice (DOJ) declined to intervene in the action, reserving its right to intervene in the action at a later time. The complaint alleges off-label marketing and improper payments to physicians in connection with sales of THALOMID® and REVLIMID® and is brought on behalf of the federal and various state governments under the federal false claims act and similar state laws. On April 25, 2014, we filed a motion to dismiss the complaint, which was denied except with respect to certain state claims. The complaint in the Brown Action seeks, among other things, treble damages, civil penalties and attorneys' fees and costs. We filed our answer to the complaint in August 2014. Fact discovery closed in September 2015 and expert discovery closed on June 30, 2016.

The relator (the person who brought the lawsuit on behalf of the government) submitted an expert report that, based on certain theories, purported to calculate damages and penalties. On July 25, 2016, we filed a motion to strike the relator's expert report, and on August 23, 2016, the Magistrate Judge granted our motion striking substantial portions of the report, which will significantly reduce the expert's calculation of damages and penalties. This decision is currently being appealed by the relator to the District Court judge.

The parties filed a Joint Stipulation regarding Defendant Celgene's Motion for Summary Judgment Or, In the Alternative, Partial Summary Judgment on August 29, 2016. That motion is still awaiting a decision. No trial date has been set. While we believe that the relator's claims and requested damages are unsubstantiated, we are unable at this time to predict the outcome of this matter or the ultimate legal and financial liability, if any, and cannot reasonably estimate the possible loss or range of loss, if any. We intend to vigorously defend against the claims in this action.

In February 2014, we received a letter purportedly on behalf of a stockholder demanding access to certain books and records of the Company for the purpose of investigating matters pertaining to the Brown Action. The Company complied with the demand, as modified through negotiation with counsel for the purported stockholder. In July 2014, we received a letter purportedly on behalf of two stockholders (one of which was referenced in the February 2014 letter) that demands, primarily on the basis of the allegations in the Brown Action, that our board of directors take action on the Company's behalf to correct alleged deficiencies in the Company's internal controls and to recover from current and past directors and officers damages those stockholders allege to have resulted from breaches of fiduciary duties related to the matters alleged in the Brown Action (the Demand). Our Board formed a Demand Investigation Committee, and with the assistance of independent counsel retained by it, the Demand Investigation Committee considered the issues raised in the stockholders' letter. In October 2015, the Demand Investigation Committee reported to the Board of Directors, and the Board of Directors accepted the Committee's recommendation, that the Company take no action at this time, legal or otherwise, in response to the stockholders' demands. In November 2015, we received another letter purportedly on behalf of the same two stockholders that demands access to certain books and records of the Company for the purpose of

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investigating whether the Demand was wrongfully refused, the independence, good faith and due care of the Demand Investigation Committee, and whether the Demand Investigation Committee conducted a reasonable investigation of the Demand. On February 22, 2016, the Company produced additional documents pursuant to the November 2015 letter.

In November 2014, we received another letter purportedly on behalf of a stockholder demanding access to certain books and records of the Company for the purpose of investigating matters pertaining to the Brown Action. The Company complied with the demand, as modified through negotiation with counsel for the purported stockholder, and in November 2015 the stockholder filed a complaint in Delaware Chancery Court asserting derivative claims on behalf of the Company against eight current, and four former members of the Board of Directors. The complaint alleges, largely on the basis of allegations in the Brown Action, that the defendant directors breached their fiduciary duties by allowing the Company to engage in unlawful activity in its marketing of THALOMID® and REVLIMID®, and seeks from the defendant directors unspecified damages, including Celgene's costs of defending against government and civil investigations and lawsuits and alleged reputational harm, and disgorgement of compensation paid to the defendant directors. On January 22, 2016, the Company filed a motion to dismiss the complaint on the basis that prior to filing the complaint asserting derivative claims the plaintiff was required under Delaware law and failed to demand that our board of directors take action on the Company's behalf. On April 5, 2016, the Company filed a motion to dismiss the amended complaint. Briefing on the motion to dismiss was completed on August 10, 2016. Oral argument on the motion to dismiss is scheduled to be heard on December 9, 2016.

On June 7, 2013, Children's Medical Center Corporation (CMCC) filed a lawsuit against us in the Superior Court of the Commonwealth of Massachusetts alleging that our obligation to pay a 1% royalty on REVLIMID® net sales revenue and a 2.5% royalty on POMALYST®/IMNOVID® net sales revenue under a license agreement entered into in December 2002 extended beyond February 28, 2013 and that our failure to make royalty payments to CMCC subsequent to February 28, 2013 breached the license agreement. CMCC is seeking unspecified damages and a declaration that the license agreement remains in full force and effect. In July 2013, we removed these proceedings to the United States District Court for the District of Massachusetts. On August 5, 2013, we filed an answer to CMCC's complaint and a counterclaim for declaratory judgment that our obligations to pay royalties have expired. On August 26, 2013, CMCC filed an answer to our counterclaim.

On July 8, 2014, CR Rev Holdings, LLC (CR Rev) filed a complaint against Celgene in the same action. CR Rev alleges that CMCC sold and assigned a substantial portion of the royalty payments owed by Celgene on the sale of REVLIMID® to CR Rev. CR Rev has alleged causes of action with respect to REVLIMID® identical to those alleged by CMCC, and seeks unspecified damages and a declaration that the license agreement is still in effect.

Discovery in this matter has been completed. On August 4, 2015, plaintiffs filed a motion for summary judgment on certain claims, including breach of contract, declaratory judgment and, with respect to Celgene's counterclaims, patent misuse. Oral argument on the motion was held on October 21, 2015.

On February 23, 2016, the Magistrate Judge recommended to the Court to allow royalties on sales of REVLIMID® during the period from March 1, 2013 through May 11, 2016, and to deny the remainder of plaintiffs' motion, including seeking royalties on sales of POMALYST®/IMNOVID®. On March 8, 2016, we filed objections to the Report and Recommendation. On September 30, 2016, the District Court judge issued an order adopting in part and modifying in part the Magistrate Judge's Report and Recommendation. In particular, the District Court judge's order permits Celgene to proceed at trial with its patent misuse defense to the plaintiffs' claims. No trial date has been set by the court. We intend to vigorously defend against CMCC's and CR Rev's claims.

During the nine-month period ended September 30, 2016, we accrued \$130.0 million related to this matter, including \$30.0 million accrued during the three-month period ended September 30, 2016, as a probable and reasonably estimable loss contingency. There is a reasonable possibility that the ultimate loss incurred may be in excess of the accrued amount. We will monitor this matter for developments that would affect the likelihood of a loss and the accrued amount thereof and will adjust the accrued amount as appropriate. Any loss in excess of the accrued amount cannot be reasonably estimated at this time and may be affected by, among other things: (i) resolution of disputed facts and claims at trial, and (ii) future court rulings from the District Court or on appeal.

On November 7, 2014, the International Union of Bricklayers and Allied Craft Workers Local 1 Health Fund (IUB) filed a putative class action lawsuit against us in the United States District Court for the District of New Jersey alleging that we violated various state antitrust, consumer protection, and unfair competition laws by (a) allegedly securing an exclusive supply contract with Seratec S.A.R.L. so that Barr Laboratories (Barr) allegedly could not secure its own supply of thalidomide active pharmaceutical ingredient; (b) allegedly refusing to sell samples of our THALOMID® and REVLIMID® brand drugs to Mylan Pharmaceuticals, Lannett Company, and Dr. Reddy's Laboratories so that those companies can conduct the bioequivalence testing necessary for ANDAs to

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be submitted to the FDA for approval to market generic versions of these products; and (c) allegedly bringing unjustified patent infringement lawsuits against Barr and Natco Pharma Limited in order to allegedly delay those companies from obtaining approval for proposed generic versions of THALOMID® and REVLIMID®. IUB, on behalf of itself and a putative class of third party payers, is seeking injunctive relief and damages. On February 3, 2015, we filed a motion to dismiss IUB's complaint. On March 3, 2015, the City of Providence ("Providence") filed a similar putative class action making similar allegations. Both IUB and Providence, on behalf of themselves and a putative class of third party payers, are seeking injunctive relief and damages. Providence agreed that the decision in the motion to dismiss IUB's complaint would apply to the identical claims in Providence's complaint. A supplemental motion to dismiss Providence's state law claims was filed on April 20, 2015. On October 30, 2015, the court denied our motion to dismiss on all grounds.

Celgene filed its Answer to the IUB and Providence complaints on January 11, 2016. The completion of fact discovery and expert discovery is scheduled for August 1, 2017 and December 15, 2017, respectively. No trial date has been set. We intend to vigorously defend against IUB's claims.

In December 2015, we received a subpoena from the U.S. Attorney's Office for the District of Massachusetts requesting documents related to our support of 501(c)(3) organizations that provide financial assistance to patients. We are cooperating with this request.



## 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,” “could,” “will,” “will continue,” “seeks,” “should,” “predicts,” “potential,” “outlook,” “guidance,” “target,” “forecast,” “probable,” and 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 2015 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (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, together with its subsidiaries (collectively “we,” “our,” “us,” “Celgene” or the “Company”), is an integrated global biopharmaceutical company engaged primarily in the discovery, development and commercialization of innovative therapies for the treatment of cancer and inflammatory diseases through next-generation solutions in protein homeostasis, immuno-oncology, epigenetics, immunology and neuro-inflammation. Celgene Corporation was incorporated in the State of Delaware in 1986.

Our primary commercial stage products include REVLIMID<sup>®</sup>, POMALYST<sup>®</sup>/IMNOVID<sup>®</sup>, OTEZLA<sup>®</sup>, ABRAXANE<sup>®</sup>, VIDAZA<sup>®</sup>, azacitidine for injection (generic version of VIDAZA<sup>®</sup>), THALOMID<sup>®</sup> (sold as THALOMID<sup>®</sup> or Thalidomide Celgene<sup>™</sup> outside of the U.S.), and ISTODAX<sup>®</sup>. In addition, we earn revenue through licensing arrangements.

We continue to invest substantially in research and development in support of multiple ongoing proprietary clinical development programs which support our existing products and pipeline of new drug candidates. Our clinical trial activity includes trials across the disease areas of hematology, oncology, and inflammation and immunology. REVLIMID<sup>®</sup> is in several phase III trials covering a range of hematological malignancies that include multiple myeloma, lymphomas, chronic lymphocytic leukemia (CLL) and myelodysplastic syndromes (MDS). POMALYST<sup>®</sup>/IMNOVID<sup>®</sup> was approved in the United States and the European Union (EU) for indications in multiple myeloma based on phase II and phase III trial results, respectively, and an additional phase III trial is underway with POMALYST<sup>®</sup>/IMNOVID<sup>®</sup> in relapsed and refractory multiple myeloma. In solid tumors, ABRAXANE<sup>®</sup> is currently in various stages of investigation for breast, pancreatic and non-small cell lung cancers. In inflammation and immunology, OTEZLA<sup>®</sup> is being evaluated in phase III trials for Behçet's disease and expanded indications in psoriatic arthritis and plaque psoriasis. We also have a growing number of potential products in phase III trials across multiple diseases. In the inflammation and immunology therapeutic area, we have phase III trials

underway for ozanimod in ulcerative colitis (UC) and relapsing multiple sclerosis (RMS) and for GED-0301 in Crohn's disease. In hematology, phase III trials are underway for CC-486 in MDS and acute myeloid leukemia (AML), for AG-221 in AML and for luspatercept in MDS and beta-thalassemia.

Beyond our phase III programs, we have access to a growing early-to-mid-stage pipeline of novel potential therapies to address significant unmet medical needs that consists of new drug candidates and cell therapies developed in-house, licensed from other companies or able to be optioned from collaboration partners. We believe that continued use of our primary commercial stage products, participation in research and development collaboration arrangements, depth of our product pipeline, regulatory approvals of new products and expanded use of existing products will provide the catalysts for future growth.

In September 2016, we acquired all of the outstanding shares of EngMab AG (EngMab), a privately held biotechnology company focused on T-cell bi-specific antibodies. EngMab's lead molecule, EM901 is a preclinical T-cell bi-specific antibody targeting B-cell maturation antigen (BCMA). The acquisition also included another early stage program.

The consideration included an initial payment of 606.9 million Swiss Francs (CHF) (approximately \$625.3 million), contingent development and regulatory milestones of up to CHF 150.0 million (approximately \$154.7 million) and contingent commercial milestones of up to CHF 2.250 billion (approximately \$2.320 billion) based on cumulative sales levels of between \$1.000 billion and \$40.000 billion. The acquisition of EngMab did not include any significant processes and thus, for accounting purposes, we have concluded that the acquired assets did not meet the definition of a business. The initial payment was allocated primarily to the EM901 molecule and another early stage program, resulting in a \$623.3 million research and development asset acquisition expense and \$2.0 million of net working capital acquired.

The diseases that our primary commercial stage products are approved to treat are described below for the major markets of the United States, the European Union and Japan. Approvals in other international markets are indicated in the aggregate for the disease indication that most closely represents the majority of the other international approvals.

REVLIMID® (lenalidomide): REVLIMID® is an oral immunomodulatory drug marketed in the United States and many international markets for the following uses:

Disease	Geographic Approvals
Multiple myeloma (MM)	- United States
Multiple myeloma in combination with dexamethasone, in patients who have received at least one prior therapy	- European Union - Japan - Other international markets
Multiple myeloma in combination with dexamethasone for newly diagnosed patients	- United States - Japan - Other international markets
Adult patients with previously untreated multiple myeloma who are not eligible for transplant	- European Union
Myelodysplastic syndromes (MDS)	- United States
Transfusion-dependent anemia due to low- or intermediate-1-risk MDS associated with a deletion 5q abnormality with or without additional cytogenetic abnormalities	- Other international markets
Transfusion-dependent anemia due to low- or intermediate-1-risk MDS in patients with isolated deletion 5q cytogenetic abnormality when other options are insufficient or inadequate	- European Union
MDS with a deletion 5q cytogenetic abnormality. The efficacy or safety of REVLIMID® for International Prognostic Scoring System (IPSS) intermediate-2 or high risk MDS has not been established.	- Japan
Mantle cell lymphoma (MCL) in patients whose disease has relapsed or progressed after two prior therapies, one of which included bortezomib	- United States - European Union (July 2016)

ABRAXANE® (paclitaxel albumin-bound particles for injectable suspension): ABRAXANE® is a solvent-free chemotherapy product which was developed using our proprietary nab® technology platform. This protein-bound chemotherapy agent combines paclitaxel with albumin. ABRAXANE® is approved for the following uses:

Disease	Geographic Approvals
Breast Cancer	
Metastatic breast cancer, after failure of combination chemotherapy for metastatic disease or relapse within six months of adjuvant chemotherapy. Prior therapy should have included an anthracycline unless clinically contraindicated.	- United States - Other international markets
Metastatic breast cancer in adult patients who have failed first-line treatment for metastatic disease for whom standard, anthracycline containing therapy is not indicated	- European Union
Breast cancer	- Japan
Non-Small Cell Lung Cancer (NSCLC)	
Locally advanced or metastatic NSCLC, as first-line treatment in combination with carboplatin, in patients who are not candidates for curative surgery or radiation therapy	- United States - European Union - Other international markets
NSCLC	- Japan
Pancreatic Cancer	
Metastatic adenocarcinoma of the pancreas, a form of pancreatic cancer, as first line treatment in combination with gemcitabine	- United States - European Union - Other international markets
Unresectable pancreatic cancer	- Japan
Gastric Cancer	- Japan

POMALYST®/IMNOVID® (pomalidomide)<sup>1</sup>: POMALYST®/IMNOVID® is a proprietary, distinct, small molecule that is administered orally and modulates the immune system and other biologically important targets. POMALYST®/IMNOVID® is approved for the following uses:

Disease	Geographic Approvals
Multiple myeloma, in combination with dexamethasone, for patients who have received at least two prior therapies, including lenalidomide and a proteasome inhibitor and have demonstrated disease progression on or within 60 days of completion of the last therapy	- United States
Relapsed and refractory multiple myeloma, in combination with dexamethasone, for adult patients who have received at least two prior therapies including both lenalidomide and bortezomib and have demonstrated disease progression on the last therapy	- European Union
Relapsed and refractory multiple myeloma for patients who have received REVLIMID or bortezomib	- Japan

<sup>1</sup> We received regulatory approval for pomalidomide under the trade name POMALYST® in the United States and Japan and under the trade name IMNOVID® in the European Union.

OTEZLA® (apremilast): OTEZLA® is an oral small-molecule inhibitor of phosphodiesterase 4 (PDE4) specific for cyclic adenosine monophosphate (cAMP). PDE4 inhibition results in increased intracellular cAMP levels. OTEZLA® is approved for the following uses:

Disease	Geographic Approvals
Psoriatic arthritis	
Adult patients with active psoriatic arthritis	- United States
Adult patients with active psoriatic arthritis who have had an inadequate response or who have been intolerant to a prior DMARD therapy	- European Union
Psoriasis	
	- United States
Patients with moderate to severe plaque psoriasis who are candidates for phototherapy or systemic therapy	- Other international markets
Adult patients with moderate to severe chronic plaque psoriasis who failed to respond to or who have a contraindication to, or are intolerant to other systemic therapy including cyclosporine, methotrexate or psoralen and ultraviolet-A light	- European Union

VIDAZA® (azacitidine for injection): VIDAZA® 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. The U.S. regulatory exclusivity for VIDAZA® expired in May 2011. After the launch of a generic version of VIDAZA® in the United States by a competitor in September 2013, we experienced a significant reduction in our U.S. sales of VIDAZA®. In 2013, we contracted with Sandoz AG (Sandoz) to sell a generic version of VIDAZA® in the United States, which we supply, and we recognize net product sales from our sales to Sandoz. Regulatory exclusivity for VIDAZA® is expected to continue in Europe through 2019. VIDAZA® is marketed in the United States and many international markets for the following uses:

Disease	Geographic Approvals
Myelodysplastic syndromes (MDS)	
All French-American-British (FAB) subtypes	- United States
	- European Union
Intermediate-2 and high-risk MDS	- Other international markets
MDS	
	- Japan
	- European Union
Chronic myelomonocytic leukemia with 10% to 29% marrow blasts without myeloproliferative disorder	- Other international markets
	- European Union
Acute myeloid leukemia (AML) with 20% to 30% blasts and multi-lineage dysplasia	- Other international markets
Acute myeloid leukemia with >30% bone marrow blasts according to the WHO classification in patients aged 65 years or older who are not eligible for haematopoietic stem cell transplantation	- European Union



THALOMID® (thalidomide): THALOMID®, sold as THALOMID® or Thalidomide Celgene™ outside of the United States, is administered orally for the following uses:

Disease	Geographic Approvals
Multiple myeloma	
Newly diagnosed multiple myeloma, in combination with dexamethasone	- United States
Thalomid in combination with dexamethasone is indicated for induction therapy prior to high dose chemotherapy with autologous stem cell rescue, for the treatment of patients with untreated multiple myeloma	- Other international markets - Other international markets
Multiple myeloma after failure of standard therapies (relapsed or refractory)	- European Union - Other international markets
Thalidomide Celgene™ in combination with melphalan and prednisone as a first line treatment for patients with untreated multiple myeloma who are aged sixty-five years of age or older or ineligible for high dose chemotherapy	- European Union - Other international markets
Erythema nodosum leprosum	
Cutaneous manifestations of moderate to severe erythema nodosum leprosum (ENL), an inflammatory complication of leprosy	- United States - Other international markets
Maintenance therapy for prevention and suppression of the cutaneous manifestation of ENL recurrence	- United States - Other international markets

ISTODAX® (romidepsin): ISTODAX® is administered by intravenous infusion for the treatment of patients with the diseases as indicated below and has received orphan drug designation for the treatment of non-Hodgkin's T-cell lymphomas, including CTCL and PTCL.

Disease	Geographic Approvals
Cutaneous T-cell lymphoma (CTCL) in patients who have received at least one prior systemic therapy	- United States - Other international markets
Peripheral T-cell lymphoma (PTCL) in patients who have received at least one prior therapy	- United States - Other international markets

The following table summarizes total revenue and earnings for the three-month periods ended September 30, 2016 and 2015 (dollar amounts in millions, except per share data):

	Three-Month Periods Ended		Increase	Percent Change
	September 30, 2016	2015		
Total revenue	\$2,982.8	\$2,334.1	\$ 648.7	27.8 %
Net income (loss)	\$171.4	\$(34.1 )	\$ 205.5	N/A
Diluted earnings (loss) per share	\$0.21	\$(0.04 )	\$ 0.25	N/A

Total revenue increased by \$648.7 million in the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, primarily due to the continued growth in sales of REVLIMID®, POMALYST®/IMNOVID® and OTEZLA®. The \$205.5 million increase in net income and \$0.25 increase in diluted

earnings per share in the current three-month period were primarily due to a higher level of net product sales, a \$425.5 million decrease in research and development collaboration related expenses and a \$201.2 million decrease in acquisition-related charges and restructuring, net, partly offset by a \$623.3 million research and development asset acquisition expense in the 2016 three-month period associated with the purchase of EngMab, and an increase in selling, general and administrative expenses of \$147.7 million due to a \$72.0 million increase in expenses for donations to independent non-profit patient assistance organizations in the United States as well as a \$30.0 million increase in litigation-related loss contingency accrual expense.



The following table summarizes total revenue and earnings for the nine-month periods ended September 30, 2016 and 2015 (dollar amounts in millions, except per share data):

	Nine-Month		Increase	Percent Change
	Periods Ended September 30,			
	2016	2015		
Total revenue	\$8,248.7	\$6,692.7	\$1,556.0	23.2 %
Net income	\$1,570.3	\$1,041.0	\$529.3	50.8 %
Diluted earnings per share	\$1.95	\$1.26	\$0.69	54.8 %

Total revenue increased by \$1.556 billion in the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, primarily due to the continued growth in sales of REVLIMID<sup>®</sup>, POMALYST<sup>®</sup>/IMNOVID<sup>®</sup> and OTEZLA<sup>®</sup>. The \$529.3 million increase in net income and \$0.69 increase in diluted earnings per share in the current nine-month period were primarily due to a higher level of net product sales and a \$190.6 million decrease in acquisition related charges and restructuring, net, partly offset by a \$414.9 million increase in research and development expenses primarily due to a \$623.3 million research and development asset acquisition expense associated with the purchase of EngMab, an increase in selling, general and administrative expenses of \$276.8 million primarily due to a \$130.0 million litigation-related loss contingency accrual expense, and a \$187.0 million increase in interest expense due to the issuance of \$8.000 billion of senior notes in August 2015.

#### Results of Operations

##### Three-Month Periods Ended September 30, 2016 and 2015

Total Revenue: Total revenue and related percentages for the three-month periods ended September 30, 2016 and 2015 were as follows (dollar amounts in millions):

	Three-Month		Increase (Decrease)	Percent Change
	Periods Ended September 30,			
	2016	2015		
Net product sales:				
REVLIMID <sup>®</sup>	\$1,891.1	\$1,453.5	\$ 437.6	30.1 %
POMALYST <sup>®</sup> /IMNOVID <sup>®</sup>	341.1	256.5	84.6	33.0 %
OTEZLA <sup>®</sup>	274.6	138.7	135.9	98.0 %
ABRAXANE <sup>®</sup>	233.3	229.9		