

CELGENE CORP /DE/  
Form 10-Q  
May 02, 2012

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

(Mark one)

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

**For the quarterly period ended March 31, 2012**

**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**  
(State or other jurisdiction of incorporation  
or organization)

**86 Morris Avenue, Summit, NJ**  
(Address of principal executive offices)

**22-2711928**  
(I.R.S. Employer Identification  
Number)

**07901**  
(Zip Code)

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(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      X      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      X      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   | X |  | 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      X

At April 25, 2012, 440,497,817 shares of Common Stock, par value \$.01 per share, were outstanding.

CELGENE CORPORATION

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****CELGENE CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)****(In thousands, except per share amounts)**

|   | <b>Three-Month Periods Ended</b> |              |
|---|----------------------------------|--------------|
|   | <b>March 31,</b>                 |              |
|   | <b>2012</b>                      | <b>2011</b>  |
| Revenue:  |                                  |              |
| Net product sales   | \$ 1,245,499                     | \$ 1,083,609 |
| Collaborative agreements and other revenue                                | 2,631                            | 9,303        |
| Royalty revenue   | 25,158                           | 32,369       |
| Total revenue   | 1,273,288                        | 1,125,281    |
| Expenses:   |                                  |              |
| Cost of goods sold (excluding amortization of acquired intangible assets) | 72,520                           | 127,268      |
| Research and development  | 362,044                          | 435,478      |
| Selling, general and administrative                                       | 325,778                          | 302,261      |
| Amortization of acquired intangible assets                                | 41,760                           | 69,050       |
| Acquisition related (gains) charges and restructuring, net                | (11,070)                         | (96,744)     |
| Total costs and expenses  | 791,032                          | 837,313      |
| Operating income  | 482,256                          | 287,968      |
| Other income and expense:   |                                  |              |
| Interest and investment income, net                                       | 3,708                            | 4,522        |
| Equity in gains (losses) of affiliated companies                          | 1,187                            | (556)        |
| Interest (expense)  | (11,385)                         | (11,750)     |
| Other income (expense), net   | (1,764)                          | 6,624        |
| Income before income taxes  | 474,002                          | 286,808      |
| Income tax provision  | 72,465                           | 31,722       |
| Net income  | 401,537                          | 255,086      |
| Less: Net loss attributable to non-controlling interest                   | -                                | 504          |
| Net income attributable to Celgene  | \$ 401,537                       | \$ 255,590   |
| Net income per share attributable to Celgene:                             |                                  |              |
| Basic   | \$ 0.92                          | \$ 0.55      |
| Diluted   | \$ 0.90                          | \$ 0.54      |

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Weighted average shares:

|         |         |         |
|---------|---------|---------|
| Basic   | 438,349 | 465,993 |
| Diluted | 448,598 | 472,235 |

See accompanying Notes to Unaudited Consolidated Financial Statements

**CELGENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(In thousands, except per share amounts)

|   | Three-Month Periods Ended |                   |
|---|---------------------------|-------------------|
|   | 2012                      | March 31,<br>2011 |
| Net income  | \$ 401,537                | \$ 255,086        |
| Other comprehensive income (loss):  |                           |                   |
| Foreign currency translation adjustments  | 18,357                    | 13,837            |
| Change in functional currency of a foreign subsidiary   | 13,144                    | -                 |
| Unrealized gains (losses) related to cash flow hedges:  |                           |                   |
| Unrealized holding gains (losses), net of taxes of \$249 and \$39 for the three-months ended March 31, 2012 and 2011, respectively  | 23,285                    | (25,994)          |
| Reclassification adjustment for (gains) losses included in net income, net of taxes of \$2,618 and \$506 for the three-months ended March 31, 2012 and 2011, respectively             | (16,438)                  | (4,063)           |
| Net unrealized gains on marketable securities available for sale:   |                           |                   |
| Unrealized holding gains, net of tax (expense) benefit of \$24 and (\$1,794) for the three-months ended March 31, 2012 and 2011, respectively   | 2,461                     | 1,889             |
| Reclassification adjustment for (gains) losses included in net income, net of tax (expense) benefit of \$0 and \$326 for the three-months ended March 31, 2012 and 2011, respectively | (352)                     | 1,029             |
| Total other comprehensive income (loss)   | 40,457                    | (13,302)          |
| Comprehensive income  | 441,994                   | 241,784           |
| Comprehensive loss attributable to non-controlling interest   | -                         | 504               |
| Comprehensive income attributable to Celgene  | \$ 441,994                | \$ 242,288        |

See accompanying Notes to Unaudited Consolidated Financial Statements

## CELGENE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except per share amounts)

|   | March 31,<br>2012 |    | December 31,<br>2011 |
|---|-------------------|----|----------------------|
| <b>Assets</b>   |                   |    |                      |
| Current assets:   |                   |    |                      |
| Cash and cash equivalents   | \$ 1,861,065      | \$ | 1,859,464            |
| Marketable securities available for sale  | 408,302           |    | 788,690              |
| Accounts receivable, net of allowances of \$22,689 and \$18,855 at March 31, 2012 and December 31, 2011, respectively             | 1,035,471         |    | 945,531              |
| Inventory   | 215,637           |    | 189,573              |
| Deferred income taxes   | 133,501           |    | 116,751              |
| Other current assets  | 322,657           |    | 395,094              |
| Assets held for sale  | 58,239            |    | 58,122               |
| Total current assets  | 4,034,872         |    | 4,353,225            |
| Property, plant and equipment, net  | 519,126           |    | 506,042              |
| Investment in affiliated companies  | 28,526            |    | 26,597               |
| Intangible assets, net  | 3,339,230         |    | 2,844,698            |
| Goodwill  | 2,031,876         |    | 1,887,220            |
| Other assets  | 393,909           |    | 388,128              |
| Total assets  | \$ 10,347,539     | \$ | 10,005,910           |
| <b>Liabilities and Stockholders Equity</b>  |                   |    |                      |
| Current liabilities:  |                   |    |                      |
| Short-term borrowings   | \$ 150,528        | \$ | 526,684              |
| Accounts payable  | 100,415           |    | 121,525              |
| Accrued expenses  | 601,925           |    | 701,707              |
| Income taxes payable  | 30,820            |    | 30,042               |
| Current portion of deferred revenue   | 18,031            |    | 14,346               |
| Other current liabilities   | 178,978           |    | 138,424              |
| Liabilities of disposal group   | 7,217             |    | 7,244                |
| Total current liabilities   | 1,087,914         |    | 1,539,972            |
| Deferred revenue, net of current portion  | 13,799            |    | 12,623               |
| Income taxes payable  | 644,321           |    | 616,465              |
| Deferred income taxes   | 811,170           |    | 775,022              |
| Other non-current liabilities   | 438,766           |    | 273,516              |
| Long-term debt, net of discount   | 1,273,850         |    | 1,275,585            |
| Total liabilities   | 4,269,820         |    | 4,493,183            |
| <b>Commitments and Contingencies (Note 16)</b>  |                   |    |                      |
| <b>Equity:</b>  |                   |    |                      |
| Preferred stock, \$.01 par value per share, 5,000,000 shares authorized; none outstanding at March 31, 2012 and December 31, 2011 | -                 |    | -                    |
|   | 4,924             |    | 4,874                |

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Common stock, \$.01 par value per share, 575,000,000 shares authorized; issued 492,399,133 and 487,381,255 shares at March 31, 2012 and December 31, 2011, respectively

Common stock in treasury, at cost; 52,263,981 and 49,889,078 shares at March 31, 2012 and December 31, 2011, respectively

|   |               |               |
|---|---------------|---------------|
| Additional paid-in capital                    | (2,931,399)   | (2,760,705)   |
| Retained earnings                             | 7,058,121     | 6,764,479     |
| Accumulated other comprehensive income (loss) | 1,967,953     | 1,566,416     |
| Total stockholders' equity                    | (21,880)      | (62,337)      |
|   | 6,077,719     | 5,512,727     |
| Total liabilities and equity                  | \$ 10,347,539 | \$ 10,005,910 |

See accompanying Notes to Unaudited Consolidated Financial Statements



## CELGENE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

|   | Three-Month Periods Ended<br>March 31, |            |
|---|--|------------|
|   | 2012                                   | 2011       |
| Cash flows from operating activities:   |  |            |
| Net income  | \$ 401,537                             | \$ 255,086 |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |            |
| Depreciation  | 18,574                                 | 17,281     |
| Amortization  | 42,016                                 | 69,677     |
| Allocation of prepaid royalties   | 430                                    | 9,624      |
| Provision for accounts receivable allowances                                      | 2,674                                  | 191        |
| Deferred income taxes   | (166,490)                              | (64,914)   |
| Impairment of acquired in-process research and development                        | 22,152                                 | 118,000    |
| Change in value of contingent consideration                                       | (12,433)                               | (99,535)   |
| Share-based compensation expense  | 57,188                                 | 59,153     |
| Equity in (gains) losses of affiliated companies                                  | (1,187)                                | 556        |
| Share-based employee benefit plan expense   | 3,826                                  | 4,413      |
| Unrealized change in value of foreign currency forward contracts                  | (9,934)                                | 2,435      |
| Realized (gains) losses on marketable securities available for sale               | (351)                                  | 1,346      |
| Other, net  | (3,794)                                | (715)      |
| Change in current assets and liabilities, excluding the effect of acquisitions:   |  |            |
| Accounts receivable   | (79,324)                               | (76,139)   |
| Inventory   | (25,521)                               | 40,762     |
| Other operating assets  | 101,061                                | 26,128     |
| Assets held for sale, net   | (144)                                  | (7,820)    |
| Accounts payable and other operating liabilities                                  | (74,518)                               | (97,394)   |
| Income tax payable  | 30,465                                 | 24,088     |
| Deferred revenue  | 4,291                                  | (6,953)    |
| Net cash provided by operating activities   | 310,518                                | 275,270    |
| Cash flows from investing activities:   |  |            |
| Proceeds from sales of marketable securities available for sale                   | 485,497                                | 799,346    |
| Purchases of marketable securities available for sale                             | (105,758)                              | (498,720)  |
| Payments for acquisition of business, net of cash acquired                        | (352,246)                              | -          |
| Capital expenditures  | (28,118)                               | (23,161)   |
| Investment in affiliated companies  | (742)                                  | (1,310)    |
| Purchases of investment securities  | (5,000)                                | (533)      |
| Net cash provided by (used in) investing activities                               | (6,367)                                | 275,622    |
| Cash flows from financing activities:   |  |            |
| Payment for treasury shares   | (168,866)                              | (450,014)  |
| Proceeds from short-term borrowing  | 1,045,904                              | -          |
| Principal repayments on short-term borrowing                                      | (1,421,312)                            | -          |
| Net proceeds from exercise of common stock options and warrants                   | 215,527                                | 18,305     |
| Excess tax benefit from share-based compensation arrangements                     | 18,612                                 | 4,781      |

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|  |              |              |
|--|--------------|--------------|
| Net cash (used in) financing activities                      | (310,135)    | (426,928)    |
| Effect of currency rate changes on cash and cash equivalents | 7,585        | 11,900       |
| Net increase in cash and cash equivalents                    | 1,601        | 135,864      |
| Cash and cash equivalents at beginning of period             | 1,859,464    | 1,351,128    |
| Cash and cash equivalents at end of period                   | \$ 1,861,065 | \$ 1,486,992 |

See accompanying Notes to Unaudited Consolidated Financial Statements

**CELGENE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)**

(Unaudited)

(Dollars in thousands)

|  | <b>Three-Month Periods Ended</b> |             |
|--|----------------------------------|-------------|
|  | <b>March 31,</b>                 |             |
|  | <b>2012</b>                      | <b>2011</b> |
| Supplemental schedule of non-cash investing and financing activity:              |                                  |             |
| Change in net unrealized (gain) loss on marketable securities available for sale | \$ (2,437)                       | \$ (3,683)  |
| Matured shares tendered in connection with stock option exercises                | \$ (155)                         | \$ -        |
| Supplemental disclosure of cash flow information:                                |                                  |             |
| Interest paid  | \$ 959                           | \$ -        |
| Income taxes paid  | \$ 85,432                        | \$ 32,953   |

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 thousands,  
except per share amounts, unless otherwise indicated)**

**1. Nature of Business and Basis of Presentation**

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

Our primary commercial stage products include REVLIMID®, VIDAZA®, ABRAXANE®, THALOMID® and ISTODAX®. Additional sources of revenue include a licensing agreement with Novartis, which entitles us to royalties on FOCALIN XR® and the entire RITALIN® family of drugs, the sale of services through our Cellular Therapeutics subsidiary and other miscellaneous licensing and collaboration agreements.

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. We record net income (loss) attributable to non-controlling interest, if any, in our Consolidated Statements of Income equal to the percentage of ownership interest retained in the respective operations by the non-controlling parties.

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

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Our significant accounting policies are described in Note 1 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011, or the 2011 Annual Report on Form 10-K. There were no changes during the three months ended March 31, 2012.

### 3. Acquisitions and Divestitures

On March 7, 2012, or the Acquisition Date, we acquired all of the outstanding common stock of Avila Therapeutics, Inc., or Avila. The acquisition resulted in Avila becoming our wholly owned subsidiary. The results of operations for Avila are included in our consolidated financial statements from the date of acquisition and the assets and liabilities of Avila have been recorded at their respective fair values on the acquisition date and consolidated with our other assets and liabilities. Avila's results of operations prior to the acquisition were determined to be immaterial to us; therefore, *pro forma* financial statements are not required to be presented.

We paid \$352.2 million in cash, net of cash acquired, and may make additional payments of up to an estimated maximum of \$615.0 million in contingent developmental and regulatory milestone payments.

**CELGENE CORPORATION AND SUBSIDIARIES**

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

Prior to the acquisition, Avila was a clinical-stage biotechnology company focused on the design and development of targeted covalent drugs to achieve best-in class outcomes. Avila's product pipeline has been created using its proprietary Avilomics platform for developing targeted covalent drugs that treat diseases through protein silencing. Avila's most advanced product candidate, AVL-292, a potential treatment for cancer and autoimmune diseases, is currently in phase I clinical testing. We acquired Avila to enhance our portfolio of therapies for patients with life-threatening illnesses worldwide.

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

|   | Fair Value at the<br>Acquisition Date |
|---|---------------------------------------|
| Cash  | \$ 363,405                            |
| Contingent consideration                      | 179,135                               |
| Total fair value of consideration transferred | \$ 542,540                            |

Our potential contingent consideration payments are classified as liabilities, which were measured at fair value as of the acquisition date. The range of potential milestone payments is from no payment if none of the milestones are achieved to an estimated maximum of \$615.0 million if all milestones are achieved. The potential milestones consist of developmental and regulatory achievements, including milestones for the initiation of phase II and III studies, IND filings, and regulatory events.

We estimated the fair value of potential contingent consideration using a probability-weighted income approach, which reflects the probability and timing of future potential payments. This fair value measurement is based on significant input not observable in the market and thus represents a Level 3 liability within the fair value hierarchy. The resulting probability weighted cash flows were discounted using a discount rate based on a market participant assumption.

Subsequent to the acquisition date, we will measure the contingent consideration arrangements at fair value each period with changes in fair value recognized in operating earnings unless changes pertain to facts and circumstances that existed as of the acquisition date, in which case changes will be recognized as adjustments to goodwill. Changes in fair values will reflect new information about the in-process research and development, or IPR&D, assets and the passage of time. In the absence of new information, changes in fair value will only reflect the passage of time as development work towards the achievement of the milestones progresses and will be accrued based on an accretion schedule.

The acquisition has been accounted for using the acquisition method of accounting which requires that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date and requires the fair value of acquired IPR&D to be classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. A preliminary purchase price allocation has been made and the recorded amounts are subject to change. The following items are subject to change:

- The amount recorded for the fair value of contingent consideration.
- Amounts for intangible assets, goodwill and associated deferred tax liabilities pending finalization of valuation efforts.
- Amounts for income tax assets, receivables and liabilities, pending the filing of Avila pre-acquisition tax returns.

The amounts recognized will be finalized as the information necessary to complete the analyses is obtained, but no later than one year from the acquisition date. Material adjustments, if any, could require retrospective application if they impact amortization amounts.

**CELGENE CORPORATION AND SUBSIDIARIES**

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

The preliminary 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 preliminary fair values summarized below:

|  | March 7, 2012 |
|--|---------------|
| Working capital (1)                                | \$ 11,876     |
| Property, plant and equipment                      | 2,559         |
| Platform technology intangible asset (2)           | 356,800       |
| In-process research and development product rights | 201,900       |
| Net deferred tax liability (3)                     | (175,673)     |
| Total identifiable net assets                      | 397,462       |
| Goodwill   | 145,078       |
| Net assets acquired                                | \$ 542,540    |

- (1) Includes cash and cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities.
- (2) Platform technology related to the Avilomics discovery platform which is being amortized over a useful life of seven years based on the estimated useful life of the underlying process.
- (3) Includes current deferred income tax asset of \$14.7 million and non-current deferred tax liability of \$190.4 million.

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

The fair value of the platform technology intangible asset was based primarily on expected cash flows from future product candidates to be developed from the Avilomics platform and the fair value assigned to acquired IPR&D was primarily based on expected cash flows from the AVL-292 product candidate which is in phase I testing. The values assigned to the platform technology intangible asset and the IPR&D asset were determined by estimating the costs to develop AVL-292 and future product candidates into commercially viable products, estimating the resulting revenue from the potential products, and discounting the net cash flows to present value. The revenue and costs projections used were reduced based on the probability of developing new drugs. Additionally, the projections considered the relevant market sizes and growth factors and the nature and expected timing of new product introductions. The resulting net cash flows from such potential products are based on our estimates of cost of sales, operating expenses, and income taxes. The rates utilized to discount the net cash flows to their present value were commensurate with the stage of development of the projects and uncertainties in the economic estimates used in the projections described above. Acquired IPR&D will be accounted for as an indefinite-lived intangible asset until regulatory approval in specified markets or discontinuation.



The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the goodwill amount resulting from the acquisition. The goodwill recorded as part of the acquisition is largely attributable to full ownership rights to the Avilomics platform. 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.

Prior to the acquisition, Avila had a number of collaboration agreements in place which we are now party to. These agreements entitle us to receive potential milestone payments and reimbursement of expenses for research and development expenses incurred under the collaborations and our collaboration partners may receive intellectual property rights or options to purchase such rights related to products developed under the collaborations. We do not consider these collaboration arrangements to be material.

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Assets Held For Sale**

The remaining balances in the assets held for sale and liabilities of disposal group line items on the Consolidated Balance Sheets at March 31, 2012 relate to two facilities that were acquired in the purchase of Abraxis. We intend to sell these assets as we rationalize certain manufacturing facilities. No material gain or loss is expected to result from the sale.

**4. Earnings Per Share**

| <i>(Amounts in thousands, except per share)</i>                | Three-Month Periods Ended |                |
|--|---------------------------|----------------|
|  | 2012                      | March 31, 2011 |
| Net income attributable to Celgene                             | \$ 401,537                | \$ 255,590     |
| Weighted-average shares:                                       |                           |                |
| Basic  | 438,349                   | 465,993        |
| Effect of dilutive securities:                                 |                           |                |
| Options, restricted stock units, warrants and other incentives | 10,249                    | 6,242          |
| Diluted  | 448,598                   | 472,235        |
| Net income per share:  |                           |                |
| Basic  | \$ 0.92                   | \$ 0.55        |
| Diluted  | \$ 0.90                   | \$ 0.54        |

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 5,233,808 and 26,149,808 shares for the three-month periods ended March 31, 2012 and 2011, respectively.

Our Board of Directors has approved an open-ended common share repurchase program up to an aggregate of \$4.0 billion of our common stock. As of March 31, 2012, an aggregate of 48,179,385 shares of common stock were repurchased under the program, including 2,350,000 shares of common stock repurchased during the three-month period ended March 31, 2012.

## 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, which includes changes in a subsidiary's functional currency and net asset transfers of common control subsidiaries.

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

|                                   | Pension<br>Liability | Net Unrealized<br>Gains (Losses) From<br>Marketable Securities | Net Unrealized<br>Gains (Losses)<br>From Hedges | Foreign<br>Currency<br>Translation<br>Adjustment | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|-----------------------------------|----------------------|--|---|--|---|
| Balance December 31, 2011         | \$ (5,382)           | \$ 4,707   | \$ 5,713  | \$ (67,375)                                      | \$ (62,337)   |
| Other comprehensive income (loss) | -                    | 2,109  | 6,847   | 31,501   | 40,457  |
| Balance March 31, 2012            | \$ (5,382)           | \$ 6,816   | \$ 12,560                                       | \$ (35,874)                                      | \$ (21,880)   |
| Balance December 31, 2010         | \$ (3,836)           | \$ 3,102   | \$ (15,556)                                     | \$ (57,477)                                      | \$ (73,767)   |
| Other comprehensive income (loss) | -                    | 2,918  | (30,057)  | 13,837   | (13,302)  |
| Balance March 31, 2011            | \$ (3,836)           | \$ 6,020   | \$ (45,613)                                     | \$ (43,640)                                      | \$ (87,069)   |

**6. Financial Instruments and Fair Value Measurement**

The table below presents information about assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2012 and the valuation techniques we utilized to determine such fair value. Fair values determined based on Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Our Level 1 assets consist of marketable equity securities. Fair values determined based on Level 2 inputs utilize observable quoted prices for similar assets and liabilities in active markets and observable quoted prices for identical or similar assets in markets that are not very active. Our Level 2 assets consist primarily of U.S. Treasury securities, U.S. government-sponsored agency securities, U.S. government-sponsored agency mortgage-backed securities, non-U.S. government, agency and Supranational securities and global corporate debt securities. Fair values determined based on Level 3 inputs utilize unobservable inputs and include valuations of assets or liabilities for which there is little, if any, market activity. We do not have any Level 3 assets. Our Level 1 liability relates to our publicly traded CVRs. The Level 3 liability consists of contingent consideration related to undeveloped product rights resulting from the Gloucester acquisition and the undeveloped product rights and technology platform acquired from the Avila acquisition. The estimated maximum potential payments related to the contingent consideration from the acquisitions of Gloucester and Avila are \$120.0 million and \$615.0 million, respectively.



## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|  | Balance at<br>March 31, 2012    | Quoted Price in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|---------------------------------|--|--|--|
| Assets:  |                                 |  |  |  |
| Available-for-sale securities                      | \$ 408,302                      | \$ 496   | \$ 407,806   | \$ -   |
| Forward currency contracts                         | 62,974                          | -  | 62,974   | -  |
| Total assets                                       | \$ 471,276                      | \$ 496   | \$ 470,780   | \$ -   |
| Liabilities:                                       |                                 |  |  |  |
| Contingent value rights                            | \$ (84,384)                     | \$ (84,384)  | -  | -  |
| Other acquisition related contingent consideration | (219,791)                       | -  | -  | (219,791)  |
| Total liabilities                                  | \$ (304,175)                    | \$ (84,384)  | -  | \$ (219,791)                                       |
|  |                                 |  |  |  |
|  | Balance at<br>December 31, 2011 | Quoted Price in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:  |                                 |  |  |  |
| Available-for-sale securities                      | \$ 788,690                      | \$ 560   | \$ 788,130   | \$ -   |
| Forward currency contracts                         | 48,561                          | -  | 48,561   | -  |
| Total assets                                       | \$ 837,251                      | \$ 560   | \$ 836,691   | \$ -   |
| Liabilities:                                       |                                 |  |  |  |
| Contingent value rights                            | \$ (60,583)                     | \$ (60,583)  | -  | -  |
| Other acquisition related contingent consideration | (76,890)                        | -  | -  | (76,890)   |
|  | \$ (137,473)                    | \$ (60,583)  | -  | \$ (76,890)  |

There were no security transfers between Levels 1 and 2 in the three-month period ended March 31, 2012. Level 3 liabilities issued during the three-month period ended March 31, 2012 consist of contingent consideration related to the acquisition of Avila. The following tables represent a roll-forward of the fair value of Level 3 instruments (significant unobservable inputs):

|                                    | Three-Month Periods Ended March 31, |           |
|------------------------------------|-------------------------------------|-----------|
|                                    | 2012                                | 2011      |
| Assets:                            |                                     |           |
| Balance at beginning of period     | \$ -                                | \$ 23,372 |
| Amounts acquired or issued         | -                                   | -         |
| Net realized and unrealized gains  | -                                   | 1,165     |
| Settlements                        | -                                   | (4,982)   |
| Transfers in and/or out of Level 3 | -                                   | -         |
| Balance at end of period           | \$ -                                | \$ 19,555 |

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|                                    | Three-Month Periods Ended March 31, |              |
|------------------------------------|-------------------------------------|--------------|
|                                    | 2012                                | 2011         |
| -                                  |                                     |              |
| Liabilities:                       |                                     |              |
| Balance at beginning of period     | \$ (76,890)                         | \$ (252,895) |
| Amounts acquired or issued         | (179,135)                           | -            |
| Net change in fair value           | 36,234                              | (6,053)      |
| Settlements                        | -                                   | -            |
| Transfers in and/or out of Level 3 | -                                   | -            |
| Balance at end of period           | \$ (219,791)                        | \$ (258,948) |

## 7. Derivative Instruments and Hedging Activities

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

We enter into foreign currency forward contracts to protect against changes in anticipated foreign currency cash flows resulting from changes in foreign currency exchange rates, primarily associated with non-functional currency denominated revenues and expenses of foreign subsidiaries. The foreign currency forward hedging contracts outstanding at March 31, 2012 and December 31, 2011 had settlement dates within 36 months. These foreign currency forward contracts are designated as cash flow hedges and, to the extent effective, any unrealized gains or losses on them are reported in other comprehensive income (loss), or OCI, and reclassified to operations in the same periods during which the underlying hedged transactions affect operations. Foreign currency forward contracts for Japanese Yen with a notional amount of approximately \$498.0 million, which had previously been designated as cash flow hedges, were de-designated and closed out during the three month period ended March 31, 2012. Any ineffectiveness on these foreign currency forward contracts is reported on the Consolidated Statements of Income in other income (expense), net. Foreign currency forward contracts entered into to hedge forecasted revenue and expenses were as follows at March 31, 2012 and December 31, 2011:

| Foreign Currency  | Notional Amount |                   |
|-------------------|-----------------|-------------------|
|                   | March 31, 2012  | December 31, 2011 |
| Australian Dollar | \$ 33,102       | \$ 17,169         |
| British Pound     | 40,980          | 53,764            |
| Canadian Dollar   | 84,425          | 67,281            |
| Euro              | 791,522         | 714,446           |
| Japanese Yen      | 36,864          | 606,538           |
| Swiss Franc       | 43,882          | 49,182            |
| Total             | \$ 1,030,775    | \$ 1,508,380      |

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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 March 31, 2012, credit risk did not materially change the fair value of our foreign currency forward contracts.

We also enter into foreign currency forward contracts to reduce exposures to foreign currency fluctuations of certain recognized assets and liabilities denominated in foreign currencies. These foreign currency forward contracts have not been designated as hedges and, accordingly, any changes in their fair value are recognized on the Consolidated Statements of Income in other income (expense), net in the current period. The aggregate notional amount of the foreign currency forward non-designated hedging contracts outstanding at March 31, 2012 and December 31, 2011 were \$877.4 million and \$916.9 million, respectively.

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 swaps are recorded on the Consolidated Balance Sheets with no net impact recorded in the Consolidated Statements of Income. Additionally, any net interest payments made or received are recognized as interest expense. There were no interest rate swap contracts outstanding at March 31, 2012 or December 31, 2011.

The following table summarizes the fair value and presentation in the consolidated balance sheets for derivative instruments as of March 31, 2012 and December 31, 2011:

| Instrument  | March 31, 2012                |            |                               |            |
|---|-------------------------------|------------|-------------------------------|------------|
|   | Asset Derivatives             |            | Liability Derivatives         |            |
|   | Balance Sheet Location        | Fair Value | Balance Sheet Location        | Fair Value |
| Foreign currency forward contracts designated as hedging instruments*     | Other current assets          | \$ 36,811  | Other current assets          | \$ 16,331  |
|   | Other current liabilities     | 606        | Other current liabilities     | 1,663      |
|   | Other non-current assets      | 5,837      | Other non-current assets      | 2,757      |
|   | Other non-current liabilities | 83         | Other non-current liabilities | 2,934      |
| Foreign currency forward contracts not designated as hedging instruments* | Other current assets          | 55,574     | Other current assets          | 8,411      |
|   | Other current liabilities     | 349        | Other current liabilities     | 7,478      |
|   | Other non-current assets      | 19,045     | Other non-current assets      | 15,757     |
| Total   |                               | \$ 118,305 |                               | \$ 55,331  |
| Instrument  | December 31, 2011             |            |                               |            |
|   | Asset Derivatives             |            | Liability Derivatives         |            |
|   | Balance Sheet Location        | Fair Value | Balance Sheet Location        | Fair Value |
|   |                               | \$ 68,889  |                               | \$         |
| Foreign currency forward contracts designated as hedging instruments*     | Other current assets          | 129        | Other current assets          | 32,430     |
|   | Other current liabilities     |            | Other current liabilities     | 3,940      |
|   | Other non-current liabilities | -          | Other non-current liabilities | 24,832     |



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|   |                           | Other current assets |            |
|---|---------------------------|----------------------|------------|
| Foreign currency forward contracts not designated as hedging instruments* | Other current assets      | 66,639               | 10,395     |
|   | Other current liabilities |                      | 22,289     |
|   | Other non-current assets  | 36,684               | 32,356     |
| Total   |                           | \$ 174,803           | \$ 126,242 |

\* 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.

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables summarize the effect of derivative instruments designated as hedging instruments on the Consolidated Statements of Income for the three-month periods ended March 31, 2012 and 2011, respectively:

| Instrument                         | Amount of Gain/(Loss) Recognized in OCI on Derivative<br><br><i>(Effective Portion)</i> |     | Location of Gain/(Loss) Reclassified from Accumulated OCI into Income<br><br><i>(Effective Portion)</i> | March 31, 2012  |   |               |
|------------------------------------|---|-----|---|---|---|---------------|
|                                    |   |     |   | Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income<br><br><i>(Effective Portion)</i> | Location of Gain/(Loss) Recognized in Income on Derivative<br><br><i>(Ineffective Portion and Amount Excluded From Effectiveness Testing)</i> |               |
| Foreign currency forward contracts | \$ 23,534   | (1) | Net product sales   | \$ 19,056   | Other income, net   | \$ (1,878)(2) |

(1) Gains of \$27,612 are expected to be reclassified from Accumulated OCI into operations in the next 12 months.

(2) The amount of net losses recognized in income represents \$4,445 in losses related to the ineffective portion of the hedging relationships and \$2,567 of gains related to amounts excluded from the assessment of hedge effectiveness.

| Instrument                         | Amount of Gain/(Loss) Recognized in OCI on Derivative<br><br><i>(Effective Portion)</i> |  | Location of Gain/(Loss) Reclassified from Accumulated OCI into Income<br><br><i>(Effective Portion)</i> | March 31, 2011  |   |             |
|------------------------------------|---|--|---|---|---|-------------|
|                                    |   |  |   | Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income<br><br><i>(Effective Portion)</i> | Location of Gain/(Loss) Recognized in Income on Derivative<br><br><i>(Amount Excluded From Effectiveness Testing)</i> |             |
| Foreign currency forward contracts | \$ (25,955)   |  | Net product sales   | \$ 4,569  | Other income, net   | \$ 3,160(1) |
| Interest rate swaps                | -   |  | Interest expense  | \$ 984  |   |             |

(1) The amount of net gain recognized in income represents \$80 in losses related to the ineffective portion of the hedging relationships and \$3,240 of gains related to amounts excluded from the assessment of hedge effectiveness.



## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the effect of derivative instruments not designated as hedging instruments on the Consolidated Statements of Income for the three-month periods ended March 31, 2012 and 2011:

| Instrument                         | Location of Gain (Loss)<br>Recognized in Income<br>on Derivative | Amount of Gain (Loss)<br>Recognized in Income on Derivative March 31, |             |
|------------------------------------|--|---|-------------|
|                                    |  | 2012  | 2011        |
| Foreign currency forward contracts | Other income, net  | \$ (7,883)  | \$ (28,951) |

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

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

Money market funds of \$632.0 million and \$738.7 million at March 31, 2012 and December 31, 2011, respectively, were recorded at cost, which approximates fair value and are included in cash and cash equivalents.

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and estimated fair value of available-for-sale securities by major security type and class of security at March 31, 2012 and December 31, 2011 were as follows:

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Loss | Estimated<br>Fair<br>Value |
|---|-------------------|-----------------------------|-----------------------------|----------------------------|
| March 31, 2012  |                   |                             |                             |                            |
| U.S. Treasury securities                                    | \$ 134,309        | \$ 11                       | \$ (288)                    | \$ 134,032                 |
| U.S. government-sponsored agency securities                 | 72,297            | 126                         | -                           | 72,423                     |
| U.S. government-sponsored agency MBS                        | 123,656           | 959                         | (376)                       | 124,239                    |
| Non-U.S. government, agency and<br>Supranational securities | 2,667             | 32                          | -                           | 2,699                      |
| Corporate debt - global                                     | 73,714            | 702                         | (4)                         | 74,412                     |
| Marketable equity securities                                | 407               | 90                          | -                           | 497                        |
| Total available-for-sale marketable securities              | \$ 407,050        | \$ 1,920                    | \$ (668)                    | \$ 408,302                 |
| December 31, 2011   |                   |                             |                             |                            |
|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Loss | Estimated<br>Fair<br>Value |

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|   |    |         |    |       |    |         |    |         |
|---|----|---------|----|-------|----|---------|----|---------|
| U.S. Treasury securities                                    | \$ | 228,996 | \$ | 58    | \$ | (38)    | \$ | 229,016 |
| U.S. government-sponsored agency securities                 |    | 196,833 |    | 81    |    | (69)    |    | 196,845 |
| U.S. government-sponsored agency MBS                        |    | 256,440 |    | 600   |    | (1,901) |    | 255,139 |
| Non-U.S. government, agency and<br>Supranational securities |    | 2,666   |    | 19    |    | -       |    | 2,685   |
| Corporate debt - global                                     |    | 104,181 |    | 497   |    | (233)   |    | 104,445 |
| Marketable equity securities                                |    | 407     |    | 153   |    | -       |    | 560     |
| Total available-for-sale marketable securities              | \$ | 789,523 | \$ | 1,408 | \$ | (2,241) | \$ | 788,690 |

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

U.S. government-sponsored agency securities include general unsecured obligations either issued directly by or guaranteed by U.S. Government Sponsored Enterprises. U.S. government-sponsored agency mortgage-backed securities, or MBS, include mortgage-backed securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. Non-U.S. government, agency and Supranational securities consist of direct obligations of highly rated governments of nations other than the United States and obligations of sponsored agencies and other entities that are guaranteed or supported by highly rated governments of nations other than the United States. Corporate debt global includes obligations issued by investment-grade corporations, including some issues that have been guaranteed by governments and government agencies. Net unrealized gains in the marketable debt securities primarily reflect the impact of decreased interest rates at March 31, 2012 and December 31, 2011.

Duration periods of available-for-sale debt securities at March 31, 2012 were as follows:

|                                      | Amortized<br>Cost |    | Fair<br>Value |
|--------------------------------------|-------------------|----|---------------|
| Duration of one year or less         | \$ 73,525         | \$ | 74,084        |
| Duration of one through three years  | 314,525           |    | 314,887       |
| Duration of three through five years | 18,593            |    | 18,834        |
| Total                                | \$ 406,643        | \$ | 407,805       |

**9. Inventory**

A summary of inventories by major category at March 31, 2012 and December 31, 2011 follows:

|                 | March 31,<br>2012 |    | December 31,<br>2011 |
|-----------------|-------------------|----|----------------------|
| Raw materials   | \$ 55,479         | \$ | 50,533               |
| Work in process | 129,266           |    | 115,170              |
| Finished goods  | 30,892            |    | 23,870               |
| Total           | \$ 215,637        | \$ | 189,573              |

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**10. Investment in Affiliated Companies**

As of March 31, 2012, we held four equity method investments, including three limited partnership investment funds. We contributed an aggregate \$0.7 million to these investments during the three-month period ended March 31, 2012. A summary of our equity method investments follows:

| <u>Investment in Affiliated Companies</u>     | March 31,<br>2012 | December 31,<br>2011 |
|---|-------------------|----------------------|
| Investment in affiliated companies (1)        | \$ 27,559         | \$ 25,587            |
| Excess of investment over share of equity (2) | 967               | 1,010                |
| Investment in affiliated companies            | \$ 28,526         | \$ 26,597            |

  

| <u>Equity in Gains (Losses) of Affiliated Companies</u> | Three-Month Periods Ended March 31, |          |
|---|-------------------------------------|----------|
|   | 2012                                | 2011     |
| Affiliated companies gains (losses) (1) (3)             | \$ 1,187                            | \$ (556) |

(1) We record our interest and share of losses based on our ownership percentage.

(2) Consists of goodwill.

(3) Affiliated companies losses in 2011 included losses related to former Abraxis equity method investments.

**11. Intangible Assets and Goodwill**

**Intangible Assets:** Our intangible assets consist of developed product rights from the Pharmion, Gloucester and Abraxis acquisitions, IPR&D product rights from the Gloucester, Abraxis and Avila acquisitions, technology obtained primarily from the Avila acquisition, contract-based licenses and other miscellaneous intangibles. The amortization periods related to non-IPR&D intangible assets range from one to 17 years. The following summary of intangible assets by category includes intangibles currently being amortized and intangibles not yet subject to amortization:

|                | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Intangible<br>Assets,<br>Net | Weighted<br>Average<br>Life (Years) |
|----------------|----------------------------|-----------------------------|------------------------------|-------------------------------------|
| March 31, 2012 |                            |                             |                              |                                     |

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|                                   |    |           |              |              |      |
|-----------------------------------|----|-----------|--------------|--------------|------|
| Amortizable intangible assets:    |    |           |              |              |      |
| Acquired developed product rights | \$ | 2,186,000 | \$ (700,207) | \$ 1,485,793 | 11.9 |
| Technology                        |    | 359,334   | (6,201)      | 353,133      | 7.0  |
| Licenses                          |    | 64,250    | (7,067)      | 57,183       | 16.8 |
| Other                             |    | 40,615    | (11,242)     | 29,373       | 8.8  |
|                                   |    | 2,650,199 | (724,717)    | 1,925,482    | 11.2 |
| Non-amortized intangible assets:  |    |           |              |              |      |
| Acquired IPR&D product rights     |    | 1,413,748 | -            | 1,413,748    |      |
| Total intangible assets           | \$ | 4,063,947 | \$ (724,717) | \$ 3,339,230 |      |



## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| December 31, 2011                 | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Intangible<br>Assets,<br>Net | Weighted<br>Average<br>Life (Years) |
|-----------------------------------|----------------------------|-----------------------------|------------------------------|-------------------------------------|
| Amortizable intangible assets:    |                            |                             |                              |                                     |
| Acquired developed product rights | \$ 2,186,000               | \$ (666,142)                | \$ 1,519,858                 | 11.9                                |
| Technology                        | 2,534                      | (190)                       | 2,344                        | 10.0                                |
| Licenses                          | 64,250                     | (6,108)                     | 58,142                       | 16.8                                |
| Other                             | 40,600                     | (10,246)                    | 30,354                       | 8.8                                 |
|                                   | 2,293,384                  | (682,686)                   | 1,610,698                    | 11.9                                |
| Non-amortized intangible assets:  |                            |                             |                              |                                     |
| Acquired IPR&D product rights     | 1,234,000                  | -                           | 1,234,000                    |                                     |
| Total intangible assets           | \$ 3,527,384               | \$ (682,686)                | \$ 2,844,698                 |                                     |

The increase in gross carrying value of intangible assets at March 31, 2012 compared to December 31, 2011 was primarily due to the acquisition of Avila, which resulted in increases of \$356.8 million in technology and \$201.9 million in IPR&D product rights. The net change in the gross carrying value of IPR&D product rights during the three-month period ended March 31, 2012 included a \$22.1 million impairment charge to the Gloucester intangible asset related to a change in the estimated timing of approval of ISTODAX® for peripheral T-cell lymphoma, or PTCL, in Europe. In addition, the contingent consideration liability from the acquisition of Gloucester relating to the approval of ISTODAX® for PTCL approval in Europe was reduced by \$47.0 million, resulting in the recognition of a gain during the three months ended March 31, 2012.

Amortization expense was \$42.0 million and \$69.4 million for the three-month periods ended March 31, 2012 and 2011, respectively. Assuming no changes in the gross carrying amount of intangible assets, the amortization of intangible assets for the next five years is estimated to be approximately \$199.3 million for 2012, \$209.8 million for 2013, \$205.3 million for 2014, \$201.4 million for 2015 and \$201.1 million for 2016.

**Goodwill:** At March 31, 2012, our goodwill related to 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 change in carrying value of goodwill is summarized as follows:

|   |              |
|---|--------------|
| Balance at December 31, 2011                                    | \$ 1,887,220 |
| Acquisition of Avila  | 145,078      |
| Tax benefit on the exercise of Pharmion converted stock options | (422)        |
| Balance at March 31, 2012                                       | \$ 2,031,876 |



## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**12. Debt**

**Senior Notes:** Summarized below are the carrying values of our senior notes at March 31, 2012 and December 31, 2011:

|                              | March 31, 2012 | December 31, 2011 |
|------------------------------|----------------|-------------------|
| 2.450% senior notes due 2015 | \$ 525,428     | \$ 527,191        |
| 3.950% senior notes due 2020 | 498,881        | 498,854           |
| 5.700% senior notes due 2040 | 249,541        | 249,540           |
| Total long-term debt         | \$ 1,273,850   | \$ 1,275,585      |

At March 31, 2012, the fair value of our outstanding Senior Notes was \$1.296 billion and represented a Level 2 measurement within the fair value measurement hierarchy.

**Commercial Paper:** The carrying value of Commercial Paper as of March 31, 2012 and December 31, 2011 was \$150.5 and \$401.4 million, respectively, and approximated its fair value. The effective interest rate on the outstanding Commercial Paper balance at March 31, 2012 was 0.5%.

**Senior Unsecured Credit Facility:** We maintain a senior unsecured revolving credit facility, or the Credit Facility, that provides revolving credit in the aggregate amount of \$1.0 billion. Amounts may be borrowed in U.S. dollars for working capital, capital expenditures and other corporate purposes. The Credit Facility serves as backup liquidity for our Commercial Paper borrowings. As of March 31, 2012, 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 debt covenants as of March 31, 2012.

**Credit Facility:** In November 2011, we entered into an uncommitted facility, or the Facility, not exceeding an aggregate \$125.0 million. As of December 31, 2011, \$125.0 million was outstanding under the Facility and accounted for as short-term borrowings. The outstanding balance was repaid in January 2012 and there was no outstanding borrowing under the Facility as of March 31, 2012.

**13. Share-Based Compensation**

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The following table summarizes the components of share-based compensation expense in the Consolidated Statements of Income for the three-month periods ended March 31, 2012 and 2011:

|   | Three-Month Periods Ended |           |
|---|---------------------------|-----------|
|   | March 31,                 |           |
|   | 2012                      | 2011      |
| Cost of good sold                                       | \$ 2,876                  | \$ 2,008  |
| Research and development                                | 25,028                    | 32,592    |
| Selling, general and administrative                     | 26,816                    | 23,093    |
| Total share-based compensation expense                  | 54,720                    | 57,693    |
| Tax benefit related to share-based compensation expense | 14,619                    | 15,452    |
| Reduction in income                                     | \$ 40,101                 | \$ 42,241 |

Share-based compensation cost included in inventory was \$1.7 million and \$2.0 million at March 31, 2012 and December 31, 2011, respectively.

## CELGENE CORPORATION AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We utilize share-based compensation in the form of stock options, restricted stock units, or RSUs, and performance-based restricted stock units, or PSUs. The following table summarizes the activity for stock options, RSUs and PSUs for the three-month period ended March 31, 2012:

|                                  | Stock<br>Options | Restricted<br>Stock<br>Units | Performance-<br>Based Restricted<br>Stock<br>Units |
|----------------------------------|------------------|------------------------------|--|
| Outstanding at December 31, 2011 | 44,526,748       | 3,019,943                    | 28,500   |
| Changes during the Year:         |                  |                              |  |
| Granted                          | 2,398,800        | 71,963                       | -  |
| Exercised / Released             | (4,672,377)      | (48,750)                     | -  |
| Forfeited                        | (242,178)        | (27,530)                     | (1,500)  |
| Expired                          | (21,537)         | N/A                          | N/A  |
| Outstanding at March 31, 2012    | 41,989,456       | 3,015,626                    | 27,000   |

Total compensation cost related to nonvested awards not yet recognized and the weighted-average periods over which the awards are expected to be recognized at March 31, 2012 were as follows (dollars in thousands):

|   | Stock<br>Options | Restricted<br>Stock<br>Units | Performance-<br>Based Restricted<br>Stock Units |
|---|------------------|------------------------------|---|
| Unrecognized compensation cost  | \$ 282,769       | \$ 91,000                    | \$ 1,181  |
| Expected weighted-average period in years of compensation cost to be recognized | 2.3              | 1.6                          | 1.8   |

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

**CELGENE CORPORATION AND SUBSIDIARIES**

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

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 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 sheet and all subject to tax examinations, arise when the estimated benefit recorded in the financial statements differs from the amounts taken or expected to be taken in a tax return because of the uncertainties described above. These unrecognized tax benefits relate primarily to issues common among multinational corporations. Virtually all of these unrecognized tax benefits, if recognized, would impact the effective income tax rate. We account for interest and potential penalties related to uncertain tax positions as part of our provision for income taxes. Increases to the amount of unrecognized tax benefits from January 1, 2012 of approximately \$27.9 million relate primarily to current year operations. 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. Any settlements of examinations with taxing authorities or statute of limitations expirations would likely result in a significant decrease in our unrecognized tax benefits. It is reasonably possible that the amount of the liability for unrecognized tax benefits, exclusive of interest, could decrease by as much as \$450.0 million during the next 12-month period as a result of settlements with taxing authorities and statute of limitations expirations in various taxing jurisdictions. Our estimates of unrecognized tax benefits and potential tax benefits may not be representative of actual outcomes, and variation from such estimates could materially affect our financial statements in the period of settlement or when the statutes of limitations expire.

**15. Collaboration Agreements**

We have entered into a number of alliances in the ordinary course of business, as is customary in our industry. See Note 19 of the Notes to the Consolidated Financial Statements included in our 2011 Annual Report on Form 10-K for a more comprehensive description of existing collaboration agreements.

**16. Commitments and Contingencies**

**Collaboration Arrangements:** We have entered into certain research and development collaboration agreements, as identified in Note 15, 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. Our obligation to fund these efforts is contingent upon continued involvement in the programs and/or the lack of any adverse events which could cause the discontinuance of the programs. Due to the nature of these arrangements, the future potential payments are inherently uncertain, and accordingly no amounts have been recorded in our accompanying Consolidated Balance Sheets at March 31, 2012 and December 31, 2011.

**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.



**CELGENE CORPORATION AND SUBSIDIARIES**

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

**17. Legal Proceedings**

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

Patent proceedings include challenges to scope, validity or enforceability of our patents relating to our various products or processes. Although we believe we have substantial defenses to these challenges with respect to all our material patents, there can be no assurance as to the outcome of these matters, and a loss in any of these cases could result in a loss of patent protection for the drug at issue, which could lead to a significant loss of sales of that drug and could materially affect future results of operations.

Among the principal matters pending to which we are party to are the following:

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

In the first quarter of 2011, the United States Attorney for the Central District of California informed us that we were under investigation relating to our promotion of the drugs THALOMID® and REVLIMID® regarding alleged off-label marketing and improper payments to physicians. We are cooperating with the United States Attorney in connection with this investigation.

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

Natco responded to our infringement action on November 18, 2010, with its Answer, Affirmative Defenses and Counterclaims. Natco has alleged (through Affirmative Defenses and Counterclaims) that the patents are invalid, unenforceable and/or not infringed by Natco's proposed generic products. After filing the infringement action, we learned the identity of Natco's U.S. partner, Arrow International Limited, or Arrow, and filed an amended complaint on January 7, 2011, adding Arrow as a defendant. On January 14, 2011, an

**CELGENE CORPORATION AND SUBSIDIARIES**

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

amended complaint was filed identifying additional defendants including Watson Pharmaceuticals, Inc. (Arrow's parent), Watson Pharma, Inc. (a wholly owned subsidiary of Watson Pharmaceuticals, Inc.) and Anda, Inc. (another wholly owned subsidiary of Watson Pharmaceuticals, Inc.). On March 25, 2011, Celgene filed a second amended complaint naming only Natco, Arrow, and Watson Laboratories, Inc. (another wholly owned subsidiary of Watson Pharmaceuticals, Inc.) as Defendants. Those three entities remain the current Defendants in this action.

We believe that Natco's counterclaims are unlikely to be sustainable and intend to vigorously defend our patent rights. We believe it unlikely that Natco will prevail on each and every patent and patent claim subject to the lawsuit and that all of the patent claims would be deemed to be invalid, unenforceable and/or non-infringed. Accordingly, we believe that the ultimate outcome is not expected to have a material adverse effect on our financial condition or results of operations.

**ABRAXANE®:** On December 14, 2011, Cephalon, Inc. and Acusphere, Inc. filed a complaint against us in the United States District Court for the District of Massachusetts, alleging, among other things, that the making, using, selling, offering to sell, and importing of ABRAXANE® brand drug infringes claims of United States Patent No. RE40,493. Plaintiffs are seeking damages and injunctive relief. We intend to vigorously defend against this infringement suit. If the suit against us is successful, we may have to pay damages, ongoing royalties and may have to license rights from plaintiffs. However, we believe (a) that it is unlikely that the plaintiffs in this matter will prevail and (b) that the ultimate outcome will not have a material adverse effect on our financial condition or results of operations. We filed motions to dismiss on February 20, 2012.

**18. Subsequent Event**

On April 2, 2012, we entered into a collaboration and license agreement with Epizyme, Inc., or Epizyme, to discover, develop and commercialize personalized therapeutics for patients with genetically defined cancers by inhibiting histone methyltransferases (HMTs), an important epigenetic target class.

Under the terms of the agreement, we made an upfront payment of \$65.0 million to Epizyme and also made a \$25.0 million equity investment in Epizyme Series C Preferred Stock. Epizyme could receive up to \$165.0 million in milestone payments associated with each Epizyme compound developed under the collaboration plus royalties on sales. We have the right of first negotiation to acquire Epizyme compounds during the three-year option term and we have a \$35.0 million option to extend the collaboration for a fourth year. Epizyme will have the sole responsibility to develop and commercialize compounds in the United States while we will have sole responsibility to develop and commercialize compounds outside the United States.

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

### Forward-Looking Information

This report contains forward-looking statements that reflect the current views of our management with respect to future events, results of operations, economic performance and/or financial condition. Any statements contained in this report that are not statements of historical fact may be deemed forward-looking statements. Forward-looking statements generally are identified by the words expects, anticipates, believes, intends, estimates, aims, plans, may, could, will, will continue, seeks, should, predicts, potential, outlook, guidance, possible or the negative of such terms and similar expressions. Forward-looking statements are based on current plans, estimates, assumptions and projections, which are subject to change and may be affected by risks and uncertainties, most of which are difficult to predict and are generally beyond our control. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events, although we intend to continue to meet our ongoing disclosure obligations under the U.S. securities laws and other applicable laws. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements, and therefore you should not place too much reliance on them. These factors include, among others, those described in the sections Forward-Looking Statements and Risk Factors contained in our 2011 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission, or the SEC, and in this report and our other public reports filed with the SEC. If these or other risks and uncertainties materialize, or if the assumptions underlying any of the forward-looking statements prove incorrect, our actual performance and future actions may be materially different from those expressed in, or implied by, such forward-looking statements. We can offer no assurance that our estimates or expectations will prove accurate or that we will be able to achieve our strategic and operational goals.

### Executive Summary

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

Our primary commercial stage products include REVLIMID®, VIDAZA®, ABRAXANE®, THALOMID® and ISTODAX®.

- REVLIMID® is an oral immunomodulatory drug marketed in the United States and many international markets, in combination with dexamethasone, for treatment of patients with multiple myeloma who have received at least one prior therapy. It is also marketed in the United States and certain international markets for the treatment of transfusion-dependent anemia due to low- or intermediate-1-risk myelodysplastic syndromes, or MDS, associated with a deletion 5q cytogenetic abnormality with or without additional cytogenetic abnormalities.
- VIDAZA® 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 and is marketed in the United States for the treatment of all subtypes of MDS. The U.S. regulatory exclusivity for VIDAZA® expired in May 2011. If a



generic version of VIDAZA® is successfully launched, we may quickly lose a significant portion of our sales for this product in the United States. In Europe, VIDAZA® is marketed for the treatment of intermediate-2 and high-risk MDS as well as acute myeloid leukemia, or AML, with 30% blasts and has been granted orphan drug designation for the treatment of MDS and AML.

- ABRAXANE® is a solvent-free chemotherapy treatment option for metastatic breast cancer which was developed using our proprietary nab® technology platform. This protein-bound chemotherapy agent combines paclitaxel with albumin. It is approved for the treatment of metastatic breast cancer in the United States and specific international markets. ABRAXANE® is currently in various stages of investigation for the treatment of the following cancers: expanded applications for metastatic breast, non-small cell lung, malignant melanoma, pancreatic, bladder and ovarian.
- THALOMID® is marketed for patients with newly diagnosed multiple myeloma and for the acute treatment of the cutaneous manifestations of moderate to severe erythema nodosum leprosum, or ENL, an inflammatory complication of leprosy and as maintenance therapy for prevention and suppression of the cutaneous manifestation of ENL recurrence.
- ISTODAX® is approved in the United States for the treatment of cutaneous T-cell lymphoma, or CTCL, in patients who have received at least one prior systemic therapy. Additionally, in June 2011, ISTODAX® received U.S. approval for the treatment of peripheral T-cell lymphoma, or PTCL, in patients who have received at least one prior therapy. ISTODAX® has received orphan drug designation for the treatment of non-Hodgkin's T-cell lymphomas, which includes CTCL and PTCL. The European Medicines Agency, or EMA, has granted orphan drug designation for ISTODAX® for the treatment of both CTCL and PTCL.

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

We continue to invest substantially in research and development, and the drug candidates in our pipeline are at various stages of preclinical and clinical development. These candidates include pomalidomide and apremilast, our leading oral anti-cancer and anti-inflammatory agents, PDA-001, our leading cellular therapy, oral azacitidine, CC-223 and CC-115 for hematological and solid tumor malignancies, CC-122, our anti-cancer pleiotropic pathway modifier, and ACE-011 and ACE-536 biological products for anemia in several clinical settings of unmet need. We believe that continued acceptance of our primary commercial stage products, participation in research and development collaboration arrangements, depth of our product pipeline, regulatory approvals of new products and expanded use of existing products will provide the catalysts for future growth.

The following table summarizes total revenue and earnings for the three-month periods ended March 31, 2012 and 2011:

| <i>(In thousands \$, except earnings per share)</i> | Three-Month Periods Ended |           |           | Increase   | Percent Change |
|---|---------------------------|-----------|-----------|------------|----------------|
|   | 2012                      | March 31, | 2011      |            |                |
| Total revenue                                       | \$ 1,273,288              | \$        | 1,125,281 | \$ 148,007 | 13.2%          |
| Net income attributable to Celgene                  | \$ 401,537                | \$        | 255,590   | \$ 145,947 | 57.1%          |
| Diluted earnings per share attributable to Celgene  | \$ 0.90                   | \$        | 0.54      | \$ 0.36    | 66.7%          |

The increase in revenue for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011 was primarily due to the continued growth of REVLIMID® in both U.S. and international markets, growth of VIDAZA® in international markets and growth of ABRAXANE® in the U.S. market. Increases in net income and diluted earnings per share for the three-month period ended March 31, 2012 reflect the higher level of revenue, the 2011 three-month period inclusion of inventory step-up amortization expense of \$41.7 million for sales of ABRAXANE® and a decrease in intangible asset impairment charges for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011.

**Results of Operations:**

**Three-Month periods ended March 31, 2012 and 2011**

*Total Revenue:* Total revenue and related percentages for the three-month periods ended March 31, 2012 and 2011 were as follows:

| <i>(In thousands \$)</i>                   | Three-Month Periods Ended |                   | Increase<br>(Decrease) | Percent<br>Change |
|--|---------------------------|-------------------|------------------------|-------------------|
|  | 2012                      | March 31,<br>2011 |                        |                   |
| Net product sales:                         |                           |                   |                        |                   |
| REVLIMID ®                                 | \$ 860,998                | \$ 737,870        | \$ 123,128             | 16.7%             |
| VIDAZA ®                                   | 186,216                   | 163,283           | 22,933                 | 14.0%             |
| ABRAXANE ®                                 | 104,289                   | 74,049            | 30,240                 | 40.8%             |
| THALOMID ®                                 | 77,908                    | 85,422            | (7,514)                | (8.8)%            |
| ISTODAX ®                                  | 11,822                    | 5,734             | 6,088                  | 106.2%            |
| Other                                      | 4,266                     | 17,251            | (12,985)               | (75.3)%           |
| Total net product sales                    | \$ 1,245,499              | \$ 1,083,609      | \$ 161,890             | 14.9%             |
| Collaborative agreements and other revenue | 2,631                     | 9,303             | (6,672)                | (71.7)%           |
| Royalty revenue                            | 25,158                    | 32,369            | (7,211)                | (22.3)%           |
| Total revenue                              | \$ 1,273,288              | \$ 1,125,281      | \$ 148,007             | 13.2%             |

Total revenue increased by \$148.0 million, or 13.2%, to \$1.273 billion for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011, reflecting increases of \$66.9 million, or 10.1%, in the United States, and \$81.1 million, or 17.6%, in international markets.

*Net Product Sales:*

Total net product sales for the three-month period ended March 31, 2012 increased by \$161.9 million, or 14.9%, to \$1.245 billion compared to the three-month period ended March 31, 2011. The increase was comprised of net volume increases of \$129.9 million, price increases of \$27.2 million and the favorable impact from foreign exchange of \$4.8 million. The increase in price was primarily due to price increases on REVLIMID® and THALOMID® in the U.S. market, and decreases in adjustments related to Medicaid Managed Care Organizations and Medicare Part D Coverage Gap charges.

REVLIMID® net sales increased by \$123.1 million, or 16.7%, to \$861.0 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011, primarily due to increased unit sales in both U.S. and international markets. Increased market penetration and the increase in treatment duration of patients using REVLIMID® in multiple myeloma contributed to U.S. growth. The growth in international markets reflects the expansion of our commercial activities.



VIDAZA® net sales increased by \$22.9 million, or 14.0%, to \$186.2 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011, reflecting increases in both the U.S. and international markets. The growth in international markets was partly due to the increase in treatment duration of patients using VIDAZA® and the continued launch of VIDAZA® in new markets. VIDAZA® retains orphan drug exclusivity in Europe through the end of 2018 and in Japan until January 2021.

ABRAXANE® net sales increased by \$30.2 million, or 40.8%, to \$104.3 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011. The increase was primarily due to increased unit volumes in both U.S. and international markets.

THALOMID® net sales decreased by \$7.5 million, or 8.8%, to \$77.9 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011, primarily due to lower unit volumes in the United States, partly offset by price increases and a reduction in adjustments related to Medicaid Managed Care Organizations and Medicare Part D Coverage Gap charges.

ISTODAX® net sales increased by \$6.1 million, or 106.2%, to \$11.8 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011. The increase was primarily due to increased unit sales in the treatment of CTCL and the June 2011 FDA approval of ISTODAX® for the treatment of PTCL in patients who have received at least one prior therapy.

The other net product sales category decreased by \$13.0 million, or 75.3%, to \$4.3 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011. The decrease was primarily due to the elimination of Abraxis non-core product sales resulting from the April 2011 sale of Abraxis non-core assets, partly offset by an increase in pomalidomide sales.

*Collaborative Agreements and Other Revenue:* Revenues from collaborative agreements and other sources decreased by \$6.7 million to \$2.6 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011. The three-month period ended March 31, 2011 included a \$6.3 million milestone payment related to VIDAZA®.

*Royalty Revenue:* Royalty revenue decreased by \$7.2 million to \$25.2 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011. The decrease was primarily due to reduced royalties from Novartis based upon its sales of RITALIN® and FOCALIN XR®.

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

REVLIMID® is distributed in the United States primarily through contracted pharmacies under the RevAssist® program, which is a proprietary risk-management distribution program tailored specifically to help ensure the safe and appropriate distribution and use of REVLIMID®. Internationally, REVLIMID® is distributed under mandatory risk-management distribution programs tailored to meet local competent authorities' specifications to help ensure the product's safe and appropriate distribution and use. These programs may vary by country and, depending upon the country and the design of the risk-management program, the product may be sold through hospitals or retail pharmacies. THALOMID® is distributed in the United States under our proprietary *System for Thalidomide Education and Prescribing Safety*, or S.T.E.P.S.®, program which is a comprehensive education and risk-management distribution program with the objective of providing for the safe and appropriate distribution and use of THALOMID®. Internationally, THALOMID® is distributed under mandatory risk-management

distribution programs tailored to meet local competent authorities' specifications to help ensure the safe and appropriate distribution and use of THALOMID®. These programs may vary by country and, depending upon the country and the design of the

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

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

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

Government rebate accruals are based on estimated payments due to governmental agencies for purchases made by third parties under various governmental programs. U.S. Medicaid rebate accruals are generally based on historical payment data and estimates of future Medicaid beneficiary utilization applied to the Medicaid unit rebate formula established by the Center for Medicaid and Medicare Services. The Medicaid rebate percentage was increased and extended to Medicaid Managed Care Organizations in March 2010. The accrual of the rebates associated with Medicaid Managed Care Organizations is calculated based on estimated historical patient data related to Medicaid Managed Care Organizations. We have also analyzed actual billings received from certain states to further support the accrual rates. Subsequent to implementation of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act, or collectively the 2010 U.S. Health Care Reform Law, certain states have not yet submitted actual Medicaid Managed Care Organization bills, resulting in an increase in the accrual balance. Effective January 1, 2011 manufacturers of pharmaceutical products are responsible for 50% of the patient's cost of branded prescription drugs related to the Medicare Part D Coverage Gap. In order to estimate the cost to us of this coverage gap responsibility, we analyze data for eligible Medicare Part D patients against data for eligible Medicare Part D patients treated with our products as well as the historical invoices for 2011. This expense is recognized throughout the year as incurred. In addition, certain international markets have government-sponsored programs that require rebates to be paid based on program specific rules and, accordingly, the rebate accruals are determined primarily on estimated eligible sales.

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

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



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dependents. TRICARE rebate accruals are based on estimated Department of Defense eligible sales multiplied by the TRICARE rebate formula.

See Critical Accounting Estimates and Significant Accounting Policies in Note 1 of the Notes to the Consolidated Financial Statements included in our 2011 Annual Report on Form 10-K for further discussion of gross to net sales accruals.

Gross to net sales accruals and the balance in the related allowance accounts for the three-month periods ended March 31, 2012 and 2011 were as follows (in thousands):

| 2012  | Returns<br>and<br>Allowances | Discounts | Government<br>Rebates | Chargebacks<br>and Distributor<br>Service Fees | Total      |
|---|------------------------------|-----------|-----------------------|--|------------|
| Balance at December 31, 2011                    | \$ 8,974                     | \$ 8,724  | \$ 137,039            | \$ 64,309                                      | \$ 219,046 |
| Allowances for sales during prior periods       | (7,489)                      | -         | 1,182                 | 286  | (6,021)    |
| Allowances for sales during 2012                | 1,352                        | 15,655    | 60,017                | 47,146   | 124,170    |
| Credits/deductions issued for prior year sales  | 2,169                        | (4,273)   | (27,477)              | (28,796)                                       | (58,377)   |
| Credits/deductions issued for sales during 2012 | (704)                        | (9,963)   | (1,671)               | (15,484)                                       | (27,822)   |
| Balance at March 31, 2012                       | \$ 4,302                     | \$ 10,143 | \$ 169,090            | \$ 67,461                                      | \$ 250,996 |

| 2011  | Returns<br>and<br>Allowances | Discounts | Government<br>Rebates | Chargebacks<br>and Distributor<br>Service Fees | Total      |
|---|------------------------------|-----------|-----------------------|--|------------|
| Balance at December 31, 2010                    | \$ 4,779                     | \$ 8,272  | \$ 84,964             | \$ 47,367                                      | \$ 145,382 |
| Allowances for sales during prior periods       | -                            | -         | -                     | 2,084  | 2,084      |
| Allowances for sales during 2011                | 1,527                        | 17,100    | 64,038                | 38,849   | 121,514    |
| Credits/deductions issued for prior year sales  | (1,381)                      | (4,803)   | (30,180)              | (25,205)                                       | (61,569)   |
| Credits/deductions issued for sales during 2011 | (466)                        | (9,771)   | (3,539)               | (19,024)                                       | (32,800)   |
| Balance at March 31, 2011                       | \$ 4,459                     | \$ 10,798 | \$ 115,283            | \$ 44,071                                      | \$ 174,611 |

A comparison of provisions for allowances for sales within each of the four categories noted above for the three-month periods ended March 31, 2012 and 2011 follows:

Returns and allowances decreased by \$7.7 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011, primarily due to the reversal of approximately \$7.5 million in reserves established for certain products with quality issues which have now been resolved.

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Discounts decreased by \$1.4 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011, primarily due to a reclassification of rebates related to VIDAZA® sales in the Japanese market into the chargebacks and distributor fees category, partially offset by revenue increases in the United States and international markets, both of which offer different discount programs, and expansion into new international markets.

Government rebates decreased by \$2.8 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011, primarily due to a decrease of approximately \$5.8 million in rebates related to various U.S. governmental agencies, primarily attributable to the refinement of accrual rates for Medicaid Managed Care Organizations and Medicare Part D Coverage Gap, partially offset by a \$2.9 million increase in reimbursement rates in certain international markets.

Chargebacks and distributor service fees increased by \$6.5 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011. Chargebacks for both three-month

periods remained relatively unchanged. Distributor service fees increased by approximately \$6.8 million, primarily due to \$3.7 million in service fees associated with sales of ABRAXANE® and \$3.3 million of rebates related to VIDAZA® sales in the Japanese market which were included within discounts during the first quarter of 2011.

*Operating Costs and Expenses:* Operating costs, expenses and related percentages for the three-month periods ended March 31, 2012 and 2011 were as follows (dollar amounts in thousands):

|   | Three-Month Periods Ended |                   | Increase<br>(Decrease) | Percent<br>Change |
|---|---------------------------|-------------------|------------------------|-------------------|
|   | 2012                      | March 31,<br>2011 |                        |                   |
| Cost of goods sold (excluding amortization of acquired intangible assets) | \$ 72,520                 | \$ 127,268        | \$ (54,748)            | (43.0)%           |
| Percent of net product sales  | 5.8%                      | 11.7%             |                        |                   |
| Research and development  | \$ 362,044                | \$ 435,478        | \$ (73,434)            | (16.9)%           |
| Percent of total revenue  | 28.4%                     | 38.7%             |                        |                   |
| Selling, general and administrative                                       | \$ 325,778                | \$ 302,261        | \$ 23,517              | 7.8%              |
| Percent of total revenue  | 25.6%                     | 26.9%             |                        |                   |
| Amortization of acquired intangible assets                                | \$ 41,760                 | \$ 69,050         | \$ (27,290)            | (39.5)%           |
| Acquisition related (gains) charges and restructuring, net                | \$ (11,070)               | \$ (96,744)       | \$ (85,674)            | (88.6)%           |

*Cost of goods sold (excluding amortization of acquired intangible assets):* Cost of goods sold (excluding amortization of acquired intangible assets) decreased by \$54.7 million to \$72.5 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011. The decrease was primarily due to the 2011 three-month period inclusion of a \$41.7 million inventory step-up amortization adjustment related to sales of ABRAXANE®, an aggregate \$9.5 million in costs related to the sale of non-core Abraxis products which were divested in April 2011 and \$9.2 million in the allocation of prepaid royalties related to sales of VIDAZA®. These items were partly offset by an increase in 2012 material costs resulting from a higher level of sales activity. As a percent of net product sales, cost of goods sold (excluding amortization of acquired intangible assets) decreased to 5.8% in the three-month period ended March 31, 2012 compared to 11.7% for the three-month period ended March 31, 2011, primarily due to the inventory step-up amortization for ABRAXANE® included in 2011. Excluding the step-up adjustment, the cost of goods sold ratio for the three-month period ended March 31, 2011 was 7.9%.

*Research and Development:* Research and development expenses decreased by \$73.4 million to \$362.0 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011. The decrease was primarily due to a decrease in the in-process research and development, or IPR&D, asset impairment charges in the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011, partly offset by increased activities related to apremilast pre-launch production support, validation of the Phoenix manufacturing facility for ABRAXANE® and an increase in 2012 research and development project spending in support of multiple programs across a broad range of diseases, including over 25 on-going pivotal and phase III trials.

The following table provides a breakdown of research and development expenses (in thousands):

|  | Three-Month Periods Ended |                   | Increase<br>(Decrease) |
|--|---------------------------|-------------------|------------------------|
|  | 2012                      | March 31,<br>2011 |                        |
| Human pharmaceutical clinical programs | \$ 189,443                | \$ 171,806        | \$ 17,637              |
| Other pharmaceutical programs          | 101,969                   | 99,864            | 2,105                  |
| Drug discovery and development         | 40,652                    | 40,467            | 185                    |
| Cellular therapy                       | 7,828                     | 5,341             | 2,487                  |
| Asset impairment charges               | 22,152                    | 118,000           | (95,848)               |
| Total                                  | \$ 362,044                | \$ 435,478        | \$ (73,434)            |

Research and development expenditures support multiple ongoing clinical proprietary development programs for: REVLIMID® in multiple myeloma, or MM, mantle cell lymphoma, follicular lymphoma, diffuse large B-cell lymphoma, MDS, AML, chronic lymphocytic leukemia; VIDAZA® for treatment of AML and MDS; ABRAXANE® in melanoma, non-small cell lung and pancreatic cancers; ISTODAX® for treatment of CTCL and PTCL; apremilast, our lead anti-inflammatory compound that inhibits multiple proinflammatory mediators and which is currently being evaluated in phase III clinical trials for the treatment of psoriasis, psoriatic arthritis and ankylosing spondylitis and in phase II for treatment of rheumatoid arthritis; pomalidomide, which is currently being evaluated in phase II and III clinical trials in MM and myelofibrosis; Sotatercept, currently in phase II in renal anemia; CC-930, in idiopathic pulmonary fibrosis and discoid lupus erythematosus; CC-11050, which has a phase II clinical trial in progress in lupus; CC-223, 115 and 122 in solid tumors, non-hodgkins lymphoma and MM; as well as our cellular therapy programs in early development in rheumatoid arthritis, multiple sclerosis, Crohn's disease and sarcoidosis.

We do not collect costs on a project basis or for any category of projects for the majority of costs involved in carrying out research projects. While we do perform cost calculations to facilitate our internal evaluation of individual projects, these calculations include significant estimations and allocations that are not relevant to, or included in, our external financial reporting mechanisms. As a consequence, we do not report research and development costs at the project level.



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The following table presents significant developments in our Phase III clinical trials and regulatory approval requests that occurred during the three-month period ended March 31, 2012 as well as developments that are expected to occur if the future occurrence is material and reasonably certain:

**New phase III trials**

| <b>Product</b> | <b>Disease Indication</b> |
|----------------|---------------------------|
| REVLIMID®      | Follicular Lymphoma       |
| Apremilast     | Ankylosing Spondylitis    |

**Regulatory approval requests in major markets**

| <b>Product</b> | <b>Disease Indication</b> | <b>Major Market</b> | <b>Regulatory Agency</b> | <b>Date of Submission</b> |
|----------------|---------------------------|---------------------|--------------------------|---------------------------|
| ABRAXANE®      | Gastric/NSCLC1            | Japan               | PMDA                     | February 2012             |
| REVLIMID®      | Del 5q MDS2               | E.U.                | EMA                      | February 2012             |
| Pomalidomide   | RRMM3                     | U.S.                | FDA                      | April 2012                |

- 1 Non Small Cell Lung Cancer
- 2 Myelodysplastic syndromes, or MDS
- 3 Relapsed Refractory Multiple Myeloma

*Selling, General and Administrative:* Selling, general and administrative expenses increased by \$23.5 million to \$325.8 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011, partly due to higher marketing activities for REVLIMID® in addition to an \$18.6 million increase in donations to non-profit foundations.

*Amortization of Acquired Intangible Assets:* Amortization of acquired intangible assets is summarized below for the three-month periods ended March 31, 2012 and 2011(in thousands):

| Acquisitions       | Three-Month Periods Ended |           | Increase<br>(Decrease) |
|--------------------|---------------------------|-----------|------------------------|
|                    | March 31, 2012            | 2011      |                        |
| Avila              | \$ 5,947                  | \$ -      | \$ 5,947               |
| Abraxis            | 21,938                    | 22,563    | (625)                  |
| Gloucester         | 12,875                    | 6,550     | 6,325                  |
| Pharmion           | 1,000                     | 39,937    | (38,937)               |
| Total amortization | \$ 41,760                 | \$ 69,050 | \$ (27,290)            |

Amortization of acquired intangible assets decreased by \$27.3 million to \$41.8 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011 primarily due to certain Pharmion intangible assets becoming fully amortized at the end of 2011. The decrease was partly offset by the addition of intangible assets resulting from the March 2012 acquisition of Avila and the June 2011 FDA approval of ISTODAX® for treatment of PTCL in patients who have received at least one prior therapy, which resulted in the commencement of amortization of the intangible asset.

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*Acquisition Related (Gains) Charges and Restructuring, net:* Acquisition related (gains) charges and restructuring, net was a net gain of \$11.1 million for the three-month period ended March 31, 2012 and a net gain of \$96.7 million for the three-month period ended March 31, 2011. The three-month period ended

March 31, 2012 included a \$37.0 million favorable adjustment to the accretion of a contingent liability related to the acquisition of Gloucester, partly offset by a \$23.8 million unfavorable adjustment to the fair value of our liability related to publicly traded contingent value rights, or CVRs, that were issued as part of the acquisition of Abraxis and \$2.1 million in charges related to the acquisition of Avila.

*Interest and Investment Income, Net:* Interest and investment income, net decreased by \$0.8 million to \$3.7 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011. The decrease was primarily due to a \$2.6 million reduction in interest income due to lower overall yields, partly offset by a \$1.7 million net increase in gains on sales of marketable securities.

*Equity in Gains (Losses) of Affiliated Companies:* Under the equity method of accounting, we recorded gains of \$1.2 million for the three-month period ended March 31, 2012 and losses of \$0.6 million for the three-month period ended March 31, 2011.

*Interest (Expense):* Interest (expense) was \$11.4 million and \$11.8 million for the three-month periods ended March 31, 2012 and 2011, respectively.

*Other income (expense), net:* Other income (expense), net was a net expense of \$1.8 million for the three-month period ended March 31, 2012 and a net income of \$6.6 million for the three-month period ended March 31, 2011. The three-month period ended March 31, 2012 included net foreign exchange losses of \$4.8 million, partly offset by \$2.6 million favorable forward point amortization. The three-month period ended March 31, 2011 included net foreign exchange gains of \$3.7 million and favorable forward point amortization of \$3.2 million.

*Income Tax Provision:* The income tax provision increased by \$40.7 million to \$72.5 million for the three-month period ended March 31, 2012 compared to the three-month period ended March 31, 2011. The full year 2012 underlying effective tax rate of 16.1% reflects the impact from our low tax Swiss manufacturing operations. The increase in the underlying effective tax rate reflects a projected decrease in tax benefits from acquisition related charges. The effective tax rate was reduced by 0.8 percentage points as a result of a decrease in unrecognized tax benefits related to the expirations of statutes of limitations. The income tax provision for the three-month period ended March 31, 2011 included a full year underlying effective tax rate of 11.1%. The underlying effective tax rate reflected benefits from acquisition-related charges, including an IPR&D asset impairment charge of \$118.0 million and a non-taxable gain from a decrease in the fair value of our liability under the CVR Agreement related to the acquisition of Abraxis of \$105.6 million.

**Financial Condition, Liquidity and Capital Resources**

The following table summarizes the components of our financial condition (in thousands):

|  | March 31,<br>2012 |    | December 31,<br>2011 |    | Increase<br>(Decrease) |
|--|-------------------|----|----------------------|----|------------------------|
| Financial assets:                        |                   |    |                      |    |                        |
| Cash, cash equivalents                   | \$ 1,861,065      | \$ | 1,859,464            | \$ | 1,601                  |
| Marketable securities available for sale | 408,302           |    | 788,690              |    | (380,388)              |
| Total financial assets                   | \$ 2,269,367      | \$ | 2,648,154            | \$ | (378,787)              |
| Debt:                                    |                   |    |                      |    |                        |
| Short-term borrowings                    | \$ 150,528        | \$ | 526,684              | \$ | (376,156)              |
| Long-term debt                           | 1,273,850         |    | 1,275,585            |    | (1,735)                |
| Total debt                               | \$ 1,424,378      | \$ | 1,802,269            | \$ | (377,891)              |
| Working capital (1)                      | \$ 2,780,466      | \$ | 2,659,970            | \$ | 120,496                |

(1) Includes cash, cash equivalents and marketable securities available for sale, accounts receivable, net of allowances, inventory and other current assets, less short-term borrowings, accounts payable, accrued expenses, income taxes payable and other current liabilities.

We rely primarily on positive cash flows from operating activities, proceeds from sales of available-for-sale marketable securities, and borrowings in the form of long-term notes payable and short-term Commercial Paper to provide for our liquidity requirements. We expect continued growth in our expenditures, particularly those related to research and development, clinical trials, commercialization of new products, international expansion and capital investments. However, we anticipate that existing cash and cash equivalent balances, marketable securities available for sale, cash generated from operations and existing sources of and access to financing are adequate to fund our operating needs, capital expenditures, debt service requirements and our plans to repurchase stock or pursue other strategic business initiatives for the foreseeable future.

We consider the cumulative unremitted earnings of foreign subsidiaries to be indefinitely invested outside the United States. Of the total cash, cash equivalents and marketable securities at March 31, 2012, approximately \$1.9 billion was generated from operations in foreign tax jurisdictions and is intended for use in our foreign operations. We do not rely on these unremitted earnings as a source of funds for our domestic business as we expect to have sufficient cash flow in the United States to fund our U.S. operational and strategic needs. Consequently, we have not provided for U.S. federal or state income taxes on these undistributed foreign earnings. While we do not anticipate changing our intention regarding permanently reinvested earnings, if certain foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax liability may be reduced by any foreign income taxes paid on these earnings.

*Share Repurchase Program:* Our Board of Directors has approved an aggregate \$4.0 billion common share repurchase program of which we have approximately \$1.218 billion remaining for future share repurchases. During the three-month period ended March 31, 2012 we used \$168.9 million for share repurchases.

**Components of Working Capital**

*Cash, Cash Equivalents and Marketable Securities Available for Sale:* We invest our excess cash primarily in money market funds, U.S. Treasury securities, U.S. government-sponsored agency securities, U.S. government-sponsored agency mortgage-backed securities, non-U.S. government, agency and Supranational securities and global corporate debt securities. All liquid investments with maturities of three months or

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less from the date of purchase are classified as cash equivalents and all investments with maturities of greater than three months from the date of purchase are classified as marketable securities available for sale. We determine the appropriate classification of our investments in marketable debt and equity securities at the

time of purchase. The \$378.8 million decrease in cash, cash equivalents and marketable securities available for sale at March 31, 2012 compared to December 31, 2011 was primarily due to the net repayment of \$375.4 million in short-term borrowings, \$352.2 million cash paid for the acquisition of Avila and \$168.9 million cash paid out under our share repurchase program, partly offset by cash generated from operations.

Marketable securities available for sale are carried at fair value, held for an unspecified period of time and are intended for use in meeting our ongoing liquidity needs. Unrealized gains and losses on available-for-sale securities, which are deemed to be temporary, are reported as a separate component of stockholders' equity, net of tax. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization, along with realized gains and losses and other than temporary impairment charges, is included in interest and investment income, net. For more information related to the fair value and valuation of our marketable securities, see Note 8 to the Notes to the Consolidated Financial Statements included elsewhere in this report.

*Accounts Receivable, Net:* Accounts receivable, net increased by \$90.0 million to \$1.035 billion as of March 31, 2012 compared to December 31, 2011, primarily due to increased U.S. and international sales of REVLIMID®, VIDAZA® and ABRAXANE®, resulting in an increase in amounts due primarily from certain European countries. Sales made outside the United States typically have payment terms that are greater than 60 days, thereby extending collection periods beyond those in the United States. We expect our accounts receivable balance to continue to grow as our international sales continue to expand.

We continue to monitor economic conditions, including the volatility associated with international economies, the sovereign debt crisis in certain European countries and associated impacts on the financial markets and our business. Our current business model in these markets is to sell our products directly to principally government owned or controlled hospitals, who in turn directly deliver critical care to patients. Our products are used to treat life-threatening diseases and we believe this business model enables timely delivery and adequate supply of products. Many of the outstanding receivable balances are related to government-funded hospitals and we believe the receivable balances are ultimately collectible. Similarly, we believe that future sales to these customers will continue to be collectible.

The credit and economic conditions within Greece, Spain, Italy and Portugal, as well as increasing sales levels in those countries have resulted in, and may continue to result in, an increase in the average length of time it takes to collect accounts receivable. Our total net receivables in Spain, Italy and Portugal are composed almost entirely of amounts receivable from government owned or controlled hospitals and the public sector and amounted to \$449.6 million at March 31, 2012 compared to \$396.1 million at December 31, 2011. Approximately \$111.7 million of the \$449.6 million receivable at March 31, 2012 was greater than one year past due. Our exposure to the sovereign debt crisis in Greece is limited, as we do not have a material amount of receivables in Greece. We maintain timely and direct communication with hospital customers in Italy, Portugal and Spain regarding both the current and past due receivable balances. We continue to receive payments from these countries, and closely monitor the plans for payment at the regional government level. We also regularly request and receive positive confirmation of the validity of our receivables from most of the regional governmental authorities. We have the option to pursue legal action against certain of our customers. In view of the protracted timeline associated with collecting the outstanding balances through legal action and the current direct communication with our customers, in many instances, we do not believe this to be the best approach for any of the parties involved.

In determining the appropriate allowance for doubtful accounts for Italy, Portugal and Spain, we considered that the balance of past due receivables is related to sales made to government-owned or supported customers. We regularly monitor developments in Europe to assess whether the level of risk of default for any customers has increased and note the ongoing efforts by the European Union, European Monetary Union and International Monetary Fund to support countries with large public deficits and outstanding debt balances. We also monitor the efforts of individual countries to support their regions with large public



deficits and outstanding debt balances. We have not experienced significant losses or write-offs with respect to the collection of our accounts receivable in these countries as a result of their economic difficulties and we do not expect to have write-offs or adjustments to accounts receivable which would have a material adverse impact on our financial position or results of operations.

*Inventory:* Inventory balances increased by \$26.1 million to \$215.6 million at March 31, 2012 compared to December 31, 2011, primarily due to an increase in VIDAZA® inventories, attributable to higher sales levels.

*Other Current Assets:* Other current assets decreased by \$72.4 million to \$322.7 million as of March 31, 2012 compared to December 31, 2011 primarily due to a \$25.1 million decrease in the fair value of foreign currency forward contracts and a \$43.6 million decrease in prepaid taxes.

*Commercial Paper:* In September 2011, we entered into a commercial paper program, or the Program, under which we issue unsecured commercial paper notes, or Commercial Paper, on a private placement basis up to a maximum aggregate amount outstanding at any time of \$1.0 billion, the proceeds of which will be used for general corporate purposes. The maturities of the Commercial Paper may vary, but may not exceed 270 days from the date of issue. The Commercial Paper is sold under customary terms to a dealer or in the commercial paper market and is issued at a discount from par or, alternatively, is sold at par and bears varying interest rates on a fixed or floating basis. Borrowings under the Program are accounted for as short-term borrowings. As of March 31, 2012, \$150.5 million of Commercial Paper was outstanding bearing an effective interest rate of 0.5%.

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

The Credit Facility has a five-year term and amounts may be borrowed for working capital, capital expenditures and other corporate purposes. The Credit Facility serves as backup liquidity for our Commercial Paper borrowings. As of March 31, 2012 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 debt covenants as of March 31, 2012.

*Accounts Payable, Accrued Expenses and Other Current Liabilities:* Accounts payable, accrued expenses and other current liabilities decreased by \$80.3 million to \$881.3 million as of March 31, 2012 compared to December 31, 2011. The decrease was partly due to a \$77.5 million decrease in compensation-related accruals, \$33.8 million decrease in common stock repurchase accruals and a \$15.5 million change in the fair value of foreign currency forward derivative contracts, partly offset by a \$33.2 million increase in the current portions of contingent consideration liabilities related to the Gloucester and Avila acquisitions and a \$30.7 million increase in governmental rebates and Medicaid reimbursements

*Income Taxes Payable (Current and Non-Current):* Income taxes payable increased by \$28.6 million to \$675.1 million as of March 31, 2012 compared to December 31, 2011, primarily from the current provision for income taxes of \$238.9 million, mostly offset by tax payments of \$85.4 million, a decrease in prepaid income taxes of \$24.5 million, a tax benefit of stock options of \$20.5 million and net deferred intercompany



credits of \$79.9 million.

Analysis of Cash Flows

Cash flows from operating, investing and financing activities for the three-month periods ended March 31, 2012 and 2011 were as follows (in thousands):

|   | Three-Month Periods Ended |           |      | Change    |    |           |
|---|---------------------------|-----------|------|-----------|----|-----------|
|   | 2012                      | March 31, | 2011 |           |    |           |
| Net cash provided by operating activities           | \$                        | 310,518   | \$   | 275,270   | \$ | 35,248    |
| Net cash provided by (used in) investing activities | \$                        | (6,367)   | \$   | 275,622   | \$ | (281,989) |
| Net cash provided by (used in) financing activities | \$                        | (310,135) | \$   | (426,928) | \$ | 116,793   |

*Operating Activities:* Net cash provided by operating activities for the three-month period ended March 31, 2012 increased by \$35.2 million to \$310.5 million as compared to the three-month period ended March 31, 2011. The increase in net cash provided by operating activities was primarily attributable to the continued expansion of our operations and related increase in net earnings.

*Investing Activities:* Net cash used in investing activities for the three-month period ended March 31, 2012 decreased by \$282.0 million to a net cash use of \$6.4 million as compared to net cash provided by investing activities for the three-month period ended March 31, 2011. The decrease in net cash provided by investing activities was principally related to a cash use of \$352.2 million related to the acquisition of Avila, partially offset by higher net sales of marketable securities during the three-month period ended March 31, 2012. Net sales of marketable securities available for sale amounted to \$379.7 million during the three-month period ended March 31, 2012 compared to net sales of \$300.6 million in the three-month period ended March 31, 2011.

*Financing Activities:* Net cash used in financing activities for the three-month period ended March 31, 2012 was \$310.1 million compared to \$426.9 million for the three-month period ended March 31, 2011. The \$116.8 million decrease in net cash used in financing activities during the three-month period ended March 31, 2012 was primarily attributable net \$375.4 million of repayments of short-term borrowing, partially offset by increased proceeds from the exercise of employee stock options and reduced payments for the repurchase of common shares under our share repurchase program.

**Contractual Obligations**

For a discussion of our contractual obligations, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2011 Annual Report on Form 10-K. There have not been any material changes to such contractual obligations or potential milestone payments since December 31, 2011 aside from those disclosed in Note 3 to the Notes to the Consolidated Financial Statements included elsewhere in this report.

**Critical Accounting Estimates and Significant Accounting Policies**

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A critical accounting policy is one that is both important to the portrayal of our financial condition and results of operation and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our significant accounting policies are more fully described in Note 1 of the Notes to the Consolidated Financial Statements included in our 2011 Annual Report on Form 10-K. Our critical accounting estimates are disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our 2011 Annual Report on Form 10-K. There have not been any material changes to such significant accounting policies and critical accounting estimates since December 31, 2011.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

The following discussion provides forward-looking quantitative and qualitative information about our potential exposure to market risk. Market risk represents the potential loss arising from adverse changes in the value of financial instruments. The risk of loss is assessed based on the likelihood of adverse changes in fair values, cash flows or future earnings.

We have established guidelines relative to the diversification and maturities of investments to maintain safety and liquidity. These guidelines are reviewed periodically and may be modified depending on market conditions. Although investments may be subject to credit risk, our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure from any single issue, issuer or type of investment. At March 31, 2012, our market risk sensitive instruments consisted of marketable securities available for sale, our long-term debt, our note payable and certain foreign currency forward contracts.

*Marketable Securities Available for Sale:* At March 31, 2012, our marketable securities available for sale consisted of U.S. Treasury securities, U.S. government-sponsored agency securities, U.S. government-sponsored agency mortgage-backed securities, non-U.S. government, agency and Supranational securities, global corporate debt securities and a marketable equity security. 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. Non-U.S. government, agency and Supranational securities consist of direct obligations of highly rated governments of nations other than the United States, obligations of sponsored agencies and other entities that are guaranteed or supported by highly rated governments of nations other than the United States. Corporate debt global includes obligations issued by investment-grade corporations including some issues that have been guaranteed by governments and government agencies.

Marketable securities available for sale are carried at fair value, held for an unspecified period of time and are intended for use in meeting our ongoing liquidity needs. Unrealized gains and losses on available-for-sale securities, which are deemed to be temporary, are reported as a separate component of stockholders' equity, net of tax. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. The amortization, along with realized gains and losses and other than temporary impairment charges, is included in interest and investment income, net.

As of March 31, 2012, the principal amounts, fair values and related weighted-average interest rates of our investments in debt securities classified as marketable securities available for sale were as follows (in thousands):

|                                | Duration            |              |              |            |
|--------------------------------|---------------------|--------------|--------------|------------|
|                                | Less than<br>1 Year | 1 to 3 Years | 3 to 5 Years | Total      |
| Principal amount               | \$ 71,435           | \$ 308,802   | \$ 17,904    | \$ 398,141 |
| Fair value                     | \$ 74,084           | \$ 314,887   | \$ 18,834    | \$ 407,805 |
| Weighted average interest rate | 1.1%                | 0.7%         | 1.7%         | 0.8%       |

*Long-Term Debt:* On October 7, 2010, we issued a total of \$1.25 billion principal amount of senior notes consisting of \$500.0 million aggregate principal amount of 2.45% Senior Notes due 2015, \$500.0 million aggregate principal amount of 3.95% Senior Notes due 2020 and \$250.0 million aggregate principal amount of 5.7% Senior Notes due 2040. The notes were issued at 99.854%, 99.745% and 99.813% of par,

respectively, and the discount amortized as additional interest expense over the period from issuance through

maturity. Offering costs of approximately \$10.5 million have been recorded as debt issuance costs on our consolidated balance sheet and are amortized as additional interest expense using the effective interest rate method over the period from issuance through maturity. Interest on the notes is payable semi-annually in arrears on April 15 and October 15 of each year beginning April 15, 2011 and the principal on each note is due in full at their respective maturity dates. The notes may be redeemed at our option, in whole or in part, at any time at a redemption price defined in a make-whole clause equaling accrued and unpaid interest plus the greater of 100% of the principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments of interest and principal. If we experience a change of control accompanied by a downgrade of the debt to below investment grade, we will be required to offer to repurchase the notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest. We are subject to covenants which limit our ability to pledge properties as security under borrowing arrangements and limit our ability to perform sale and leaseback transactions involving our property. At March 31, 2012, the fair value of our senior notes outstanding was \$1.296 billion.

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

We enter into foreign currency forward contracts to protect against changes in anticipated foreign currency cash flows resulting from changes in foreign currency exchange rates, primarily associated with non-functional currency denominated revenues and expenses of foreign subsidiaries. The foreign currency forward hedging contracts outstanding at March 31, 2012 and December 31, 2011 had settlement dates within 36 months. These foreign currency forward contracts are designated as cash flow hedges under ASC 815 and, accordingly, to the extent effective, any unrealized gains or losses on them are reported in other comprehensive income (loss), or OCI, and reclassified to operations in the same periods during which the underlying hedged transactions affect operations. Foreign currency forward contracts for Japanese Yen with a notional amount of approximately \$498.0 million, which had previously been designated as cash flow hedges, were de-designated and closed out during the three month period ended March 31, 2012. Any ineffectiveness on these foreign currency forward contracts is reported on the Consolidated Statements of Income in other income (expense), net. Foreign currency forward contracts entered into to hedge forecasted revenue and expenses were as follows (in thousands of dollars):

| Foreign Currency  | Notional Amount |                   |
|-------------------|-----------------|-------------------|
|                   | March 31, 2012  | December 31, 2011 |
| Australian Dollar | \$ 33,102       | \$ 17,169         |
| British Pound     | 40,980          | 53,764            |
| Canadian Dollar   | 84,425          | 67,281            |
| Euro              | 791,522         | 714,446           |
| Japanese Yen      | 36,864          | 606,538           |
| Swiss Franc       | 43,882          | 49,182            |
| Total             | \$ 1,030,775    | \$ 1,508,380      |

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. As of March 31, 2012, credit risk did not materially change the fair value of our foreign currency forward contracts.

We recognized increases in net product sales for certain effective cash flow hedge instruments of \$19.1 million and \$4.6 million for the three-month periods ended March 31, 2012 and March 31, 2011, respectively. These settlements were recorded in the same period as the related forecasted sales occurred. Changes in time value, which we excluded from the hedge effectiveness assessment, were included in other income (expense), net.



We also enter into foreign currency forward contracts to reduce exposures to foreign currency fluctuations of certain recognized assets and liabilities denominated in foreign currencies. These foreign currency forward contracts have not been designated as hedges under ASC 815 and, accordingly, any changes in their fair value are recognized in other income (expense), net in the current period. Changes in the fair value of these currency forward contracts that have not been designated as hedges resulted in losses of \$7.9 million and \$29.0 million for the three-month periods ended March 31, 2012 and March 31, 2011, respectively. The aggregate notional amounts of the foreign currency forward non-designated hedging contracts outstanding at March 31, 2012 and December 31, 2011 were \$877.4 million and \$916.9 million, respectively.

Although not predictive in nature, we believe a hypothetical 10% threshold reflects a reasonably possible near-term change in foreign currency rates. Assuming that the March 31, 2012 exchange rates were to change by a hypothetical 10%, the fair value of the foreign currency forward contracts would change by approximately \$183.7 million. However, since the contracts either hedge specific forecasted intercompany transactions denominated in foreign currencies or relate to assets and liabilities denominated in currencies other than the entities' functional currencies, any change in the fair value of the contract would be either reported in other comprehensive income and reclassified to earnings in the same periods during which the underlying hedged transactions affect earnings or re-measured through earnings each period along with the underlying asset or liability.

From time to time we enter into interest rate swap contracts to convert a portion of our interest rate exposure from fixed rate to floating rate to more closely align interest expense with interest income received on our cash equivalent and investment balances. There were no interest rate swap contracts outstanding at March 31, 2012.

#### **Item 4. Controls and Procedures**

##### ***Evaluation of Disclosure Controls and Procedures***

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e), or the Exchange Act). Based upon the foregoing evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to our management (including our Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosures.

##### ***Changes in internal control over financial reporting***

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

The information called for by this item is incorporated herein by reference to Note 17 included in Part I, Item 1, Unaudited Financial Statements - Notes to Unaudited Consolidated Financial Statements.

### **Item 1A. Risk Factors.**

The following statements describe the major risks to our business and should be considered carefully. Any of these factors could significantly and negatively affect our business, prospects, financial condition, operating results or credit ratings, which could cause the trading price of our common stock to decline. The risks described below are not the only risks we may face. Additional risks and uncertainties not presently known to us, or risks that we currently consider immaterial, could also negatively affect our business, financial results and operations.

*We may experience significant fluctuations in our quarterly operating results which could cause our financial results to be below expectations and cause our stock price to be volatile.*

We have historically experienced, and may continue to experience, significant fluctuations in our quarterly operating results. These fluctuations are due to a number of factors, many of which are outside our control, and may result in volatility of our stock price. Future operating results will depend on many factors, including:

- demand or lack of demand for our products, including demand that adversely affects our ability to optimize the use of our manufacturing facilities;
- the introduction and pricing of products competitive with ours, including generic competition;
- developments regarding the safety or efficacy of our products;
- regulatory approvals for our products and pricing determinations with respect to our products;
- regulatory approvals for our and our competitor's manufacturing facilities;
- timing and levels of spending for research and development, sales and marketing;
- timing and levels of reimbursement from third-party payers for our products;
- development or expansion of business infrastructure in new clinical and geographic markets;
- the acquisition of new products and companies;
- tax rates in the jurisdictions in which we operate;

- timing and recognition of certain research and development milestones and license fees;
- ability to control our costs;
- fluctuations in foreign currency exchange rates; and

- economic and market instability.

***We are dependent on the continued commercial success of our primary products REVLIMID®, VIDAZA®, THALOMID® and ABRAXANE®, and a significant decline in demand for or use of these products or our other commercially available products could materially and adversely affect our operating results.***

During the next several years, the growth of our business will be largely dependent on the commercial success of REVLIMID®, VIDAZA®, THALOMID® and ABRAXANE®. We cannot predict whether these or our other existing or new products will be accepted by regulators, physicians, patients and other key opinion leaders as effective drugs with certain advantages over existing or future therapies. We are continuing to introduce our products in additional international markets and to obtain approvals for additional indications both in the United States and internationally. A delay in gaining the requisite regulatory approvals for these markets or indications could negatively impact our growth plans and the value of our stock.

Further, if unexpected adverse experiences are reported in connection with the use of our products, physician and patient comfort with the product could be undermined, the commercial success of such products could be adversely affected and the acceptance of our other products could be negatively impacted. We are subject to adverse event reporting regulations that require us to report to the FDA or similar bodies in other countries if our products are associated with a death or serious injury. These adverse events, among others, could result in additional regulatory controls, such as the performance of costly post-approval clinical studies or revisions to our approved labeling, which could limit the indications or patient population for our products or could even lead to the withdrawal of a product from the market. Similarly, the occurrence of serious adverse events known or suspected to be related to the products could negatively impact product sales. For example, THALOMID® is known to be toxic to the human fetus and exposure to the drug during pregnancy could result in significant deformities in the baby. REVLIMID® is also considered fetal toxic and there are warnings against use of VIDAZA® in pregnant women as well. While we have restricted distribution systems for both THALOMID® and REVLIMID® and we endeavor to educate patients regarding the potential known adverse events including pregnancy risks, we cannot ensure that all such warnings and recommendations will be complied with or that adverse events resulting from non-compliance will not have a material adverse effect on our business.

It is necessary that our primary products achieve and maintain market acceptance. A number of factors may adversely impact the degree of market acceptance of our products, including the products' efficacy, safety and advantages, if any, over competing products, as well as the reimbursement policies of third-party payers, such as government and private insurance plans, patent disputes and claims about adverse side effects.

***If we do not gain or maintain regulatory approval of our products we will be unable to sell our current products and products in development.***

Changes in law, government regulations or policies can have a significant impact on our results of operations. The discovery, preclinical development, clinical trials, manufacturing, risk evaluation and mitigation strategies (such as our S.T.E.P.S.® and RevAssist® programs), marketing and labeling of pharmaceuticals and biologics are all subject to extensive laws and regulations, including, without limitation, the U.S. Federal Food, Drug, and Cosmetic Act, the U.S. Public Health Service Act, Medicare Modernization Act, Food and Drug Administration Amendments Act, the U.S. Foreign Corrupt Practices Act, the Sherman Antitrust Act, patent laws, environmental laws, privacy laws and other federal and state statutes, including anti-kickback, antitrust and false claims laws, as well as similar laws in foreign jurisdictions. Enforcement of and changes in laws, government regulations or policies can have a significant adverse impact on our ability to continue to commercialize our products or introduce new products to the market, which would adversely affect our results of operations.



If we or our agents, contractors or collaborators are delayed in receiving, or are unable to obtain all, necessary governmental approvals, we will be unable to effectively market our products.

The testing, marketing and manufacturing of our products requires regulatory approval, including approval from the FDA and, in some cases, from the Environmental Protection Agency, or EPA, or governmental authorities outside of the United States that perform roles similar to those of the FDA and EPA, including the EMA, European Commission, the Japanese Pharmaceuticals and Medical Devices Agency, the Swissmedic, the Australian Therapeutic Goods Administration and Health Canada. Certain of our pharmaceutical products, such as FOCALIN®, fall under the Controlled Substances Act of 1970 that requires authorization by the U.S. Drug Enforcement Agency, or DEA, of the U.S. Department of Justice in order to handle and distribute these products.

The regulatory approval process presents a number of risks to us, principally:

- In general, preclinical tests and clinical trials can take many years, and require the expenditure of substantial resources, and the data obtained from these tests and trials can be susceptible to varying interpretation that could delay, limit or prevent regulatory approval;
- Delays or rejections may be encountered during any stage of the regulatory process based upon the failure of the clinical or other data to demonstrate compliance with, or upon the failure of the product to meet, a regulatory agency's requirements for safety, efficacy and quality or, in the case of a product seeking an orphan drug indication, because another designee received approval first or receives approval of other labeled indications;
- Requirements for approval may become more stringent due to changes in regulatory agency policy or the adoption of new regulations or legislation;
- The scope of any regulatory approval, when obtained, may significantly limit the indicated uses for which a product may be marketed and reimbursed and may impose significant limitations in the nature of warnings, precautions and contra-indications that could materially affect the sales and profitability of the drug;
- Approved products, as well as their manufacturers, are subject to continuing and ongoing review, and discovery of previously unknown problems with these products or the failure to adhere to manufacturing or quality control requirements may result in restrictions on their manufacture, sale or use or in their withdrawal from the market;
- Regulatory authorities and agencies of the United States or foreign governments may promulgate additional regulations restricting the sale of our existing and proposed products, including specifically tailored risk evaluation and mitigation strategies;
- Guidelines and recommendations published by various governmental and non-governmental organizations can reduce the use of our products;
- Once a product receives marketing approval, we may not market that product for broader or different applications, and the FDA may not grant us approval with respect to separate product applications that represent extensions of our basic technology. In addition, the FDA may withdraw or modify existing approvals in a significant manner or promulgate additional regulations restricting the sale of our present or proposed products. The FDA may also request that we perform additional clinical trials or change the labeling of our existing or proposed products if we or others identify side effects after our products are on the market;

- Products, such as REVLIMID®, that are subject to accelerated approval can be subject to an expedited withdrawal if the post-marketing restrictions are not adhered to or are shown to be inadequate to assure the safe use of the drug, or evidence demonstrates that the drug is not shown to be safe and effective under its conditions of use. Additionally, promotional materials for such products are subject to enhanced surveillance, including pre-approval review of all promotional materials used within 120 days following marketing approval and a requirement for the submissions 30 days prior to initial dissemination of all promotional materials disseminated after 120 days following marketing approval; and
- Our risk evaluation and mitigation strategies, labeling and promotional activities relating to our products as well as our post-marketing activities are regulated by the FDA, the Federal Trade Commission, the United States Department of Justice, the DEA, state regulatory agencies and foreign regulatory agencies and are subject to associated risks. In addition, individual states, acting through their attorneys general, have become active as well, seeking to regulate the marketing of prescription drugs under state consumer protection and false advertising laws. If we fail to comply with regulations regarding the promotion and sale of our products, appropriate distribution of our products under our restricted distribution systems, prohibition on off-label promotion and the promotion of unapproved products, such agencies may bring enforcement actions against us that could inhibit our commercial capabilities as well as result in significant penalties.

Other matters that may be the subject of governmental or regulatory action which could adversely affect our business include:

- changes in laws and regulations, including without limitation, patent, environmental, privacy, health care and competition laws;
- importation of prescription drugs from outside the United States at prices that are regulated by the governments of various foreign countries;
- additional restrictions on interactions with healthcare professionals; and
- privacy restrictions that may limit our ability to share data from foreign jurisdictions.

We collect placentas and umbilical cord blood for our unrelated allogeneic and private stem cell banking businesses. The FDA's Center for Biologics Evaluation and Research currently regulates human tissue or cells intended for transplantation, implantation, infusion or transfer to a human recipient under 21 CFR Parts 1270 and 1271. Part 1271 requires cell and tissue establishments to screen and test donors, to prepare and follow written procedures for the prevention of the spread of communicable disease and to register the establishment with FDA. This part also provides for inspection by the FDA of cell and tissue establishments. Currently, we are required to be, and are, licensed to operate in New York, New Jersey, Maryland and California. If other states adopt similar licensing requirements, we would need to obtain such licenses to continue operating our stem cell banking businesses. If we are delayed in receiving, or are unable to obtain at all, necessary licenses, we will be unable to provide services in those states and this could impact negatively on our revenue.

***Sales of our products will be significantly reduced if access to and reimbursement for our products by governmental and other third-party payers is reduced or terminated.***

Sales of our products will depend, in part, on the extent to which the costs of our products will be paid by health maintenance, managed care, pharmacy benefit and similar health care management organizations, or reimbursed by government health administration authorities, private health coverage insurers and other third-party payers. Generally, in Europe and other countries outside the United States, the government-sponsored healthcare system is the primary payer of healthcare costs of patients. These health care management

organizations and third-party payers are increasingly challenging the prices charged for medical products and services. Additionally, the 2010 U.S. Health Care Reform Law, which became effective in January 2011, has provided sweeping health care reform in the United States, which may impact the prices of drugs. In addition to the federal legislation, state legislatures and foreign governments have also shown significant interest in implementing cost-containment programs, including price controls, restrictions on reimbursement and requirements for substitution of generic products. The establishment of limitations on patient access to our drugs, adoption of price controls and cost-containment measures in new jurisdictions or programs, and adoption of more restrictive policies in jurisdictions with existing controls and measures, including the impact of the 2010 U.S. Health Care Reform Law, could adversely impact our business and future results. If these organizations and third-party payers do not consider our products to be cost-effective compared to other available therapies, they may not reimburse providers or consumers of our products or, if they do, the level of reimbursement may not be sufficient to allow us to sell our products on a profitable basis.

Our ability to sell our products to hospitals in the United States depends in part on our relationships with group purchasing organizations, or GPOs. Many existing and potential customers for our products become members of GPOs. GPOs negotiate pricing arrangements and contracts, sometimes on an exclusive basis, with medical supply manufacturers and distributors, and these negotiated prices are made available to a GPO's affiliated hospitals and other members. If we are not one of the providers selected by a GPO, affiliated hospitals and other members may be less likely to purchase our products, and if the GPO has negotiated a strict sole source, market share compliance or bundling contract for another manufacturer's products, we may be precluded from making sales to members of the GPO for the duration of the contractual arrangement. Our failure to renew contracts with GPOs may cause us to lose market share and could have a material adverse effect on our sales, financial condition and results of operations. We cannot assure you that we will be able to renew these contracts at the current or substantially similar terms. If we are unable to keep our relationships and develop new relationships with GPOs, our competitive position may suffer.

We encounter similar regulatory and legislative issues in most countries outside the United States. International operations are generally subject to extensive governmental price controls and other market regulations, and we believe the increasing emphasis on cost-containment initiatives in Europe and other countries has and will continue to put pressure on the price and usage of our products. Although we cannot predict the extent to which our business may be affected by future cost-containment measures or other potential legislative or regulatory developments, additional foreign price controls or other changes in pricing regulation could restrict the amount that we are able to charge for our current and future products, which could adversely affect our revenue and results of operations.

***Our long-term success depends, in part, on intellectual property protection.***

Our success depends, in part, on our ability to obtain and enforce patents, protect trade secrets, obtain licenses to technology owned by third parties and to conduct our business without infringing upon the proprietary rights of others. The patent positions of pharmaceutical and biopharmaceutical companies, including ours, can be uncertain and involve complex legal and factual questions including those related to risk evaluation and mitigation strategies (such as our S.T.E.P.S.® and RevAssist® programs). In addition, the coverage sought in a patent application can be significantly reduced before the patent is issued.

Consequently, we do not know whether any of our owned or licensed pending patent applications, which have not already been allowed, will result in the issuance of patents or, if any patents are issued, whether they will be dominated by third-party patent rights, whether they will provide significant proprietary protection or commercial advantage or whether they will be circumvented, opposed, invalidated, rendered unenforceable or infringed by others. Further, we are aware of third-party U.S. patents that relate to, for example, the use of certain stem cell technologies and cannot be assured as to any impact to our potential products, or guarantee that our patents or pending applications will not be involved in, or be defeated as a

result of, opposition proceedings before a foreign patent office or any interference proceedings before the United States Patent & Trademark Office, or PTO.

With respect to patents and patent applications we have licensed-in, there can be no assurance that additional patents will be issued to any of the third parties from whom we have licensed patent rights, or that, if any new patents are issued, such patents will not be opposed, challenged, invalidated, infringed or dominated or provide us with significant proprietary protection or commercial advantage. Moreover, there can be no assurance that any of the existing licensed patents will provide us with proprietary protection or commercial advantage. Nor can we guarantee that these licensed patents will not be either infringed, invalidated or circumvented by others, or that the relevant agreements will not be terminated. Any termination of material licenses granted to us could have a material adverse effect on our business, financial condition and results of operations.

Because (1) patent applications filed in the United States on or before November 28, 2000 are maintained in secrecy until patents issue, (2) patent applications filed in the United States on or after November 29, 2000 are not published until approximately 18 months after their earliest claimed priority date, (3) United States patent applications that are not filed outside the United States may not publish at all until issued and (4) publication of discoveries in the scientific or patent literature often lag behind actual discoveries, we cannot be certain that we, or our licensors, were the first to make the inventions covered by each of the issued patents or pending patent applications or that we, or our licensors, were the first to file patent applications for such inventions. In the event a third party has also filed a patent for any of our inventions, we, or our licensors, may have to participate in interference proceedings before the PTO to determine priority of invention, which could result in the loss of a U.S. patent or loss of any opportunity to secure U.S. patent protection for the invention. Even if the eventual outcome is favorable to us, such interference proceedings could result in substantial cost to us.

Our intellectual property rights will further be affected in ways that are difficult to anticipate at this time by the provisions of the America Invents Act, signed into law on September 16, 2011. The new patent law is the first major overhaul of the U.S. patent system since 1952, and includes a number of changes to established practices. The most significant changes in the new law include the transition to a first-to-file system, the availability of new post-grant review for issued patents, various procedural changes, including the submission of prior art and the availability of derivation proceedings and supplemental examination, and an expanded prior commercial user rights defense to a claim of patent infringement. The scope of these changes and the lack of experience with their practical implementation, suggest a transitional period with some uncertainty over the next few years. For example, while some provisions of the new patent law have already taken effect, others will take effect up to 18 months from enactment. The U.S. PTO is still in the process of publishing regulations concerning the implementation of the law. Several provisions of the new law will likely be tested in courts over time.

The changes in the new U.S. patent law will have an impact on our intellectual property rights and how business is conducted in general. For example, the first-to-file system places premium on filing as early as possible and appears to increase what is available as prior art, by changing the applicable definitions. In the future, in addition to patents and printed publications, we may be required to deal with unfamiliar prior art categories such as art that is otherwise available to the public. For patent applications filed on or after March 16, 2013, we may expect post-grant review challenges initiated up to nine months after the corresponding patent issues.

While the new patent law was intended to make the resolution of intellectual property disputes easier and less expensive, we may in the future have to prove that we are not infringing patents or we may be required to obtain licenses to such patents. However, we do not know whether such licenses will be available on commercially reasonable terms, or at all. Prosecution of patent applications, post-grant opposition proceedings and litigation to establish the validity and scope of patents, to assert patent infringement claims



against others and to defend against patent infringement claims by others can be expensive and time-consuming. There can be no assurance that, in the event that claims of any of our owned or licensed patents are challenged by one or more third parties, any court or patent authority ruling on such challenge will determine that such patent claims are valid and enforceable. An adverse outcome in such litigation or post-grant proceeding could cause us to lose exclusivity relating to the subject matter delineated by such patent claims and may have a material adverse effect on our business. If a third party is found to have rights covering products or processes used by us, we could be forced to cease using the products or processes covered by the disputed rights, be subject to significant liabilities to such third party and/or be required to license technologies from such third party. Also, different countries have different procedures for obtaining patents, and patents issued by different countries provide different degrees of protection against the use of a patented invention by others. There can be no assurance, therefore, that the issuance to us in one country of a patent covering an invention will be followed by the issuance in other countries of patents covering the same invention or that any judicial interpretation of the validity, enforceability or scope of the claims in a patent issued in one country will be similar to the judicial interpretation given to a corresponding patent issued in another country. Competitors have chosen and in the future may choose to file oppositions to patent applications, which have been deemed allowable by foreign patent examiners. Furthermore, even if our owned or licensed patents are determined to be valid and enforceable, there can be no assurance that competitors will not be able to challenge the validity or our patent claims in post-grant proceedings, or to design around such patents and compete with us using the resulting alternative technology. Additionally, for these same reasons, we cannot be sure that patents of a broader scope than ours may be issued and thereby create freedom to operate issues. If this occurs we may need to reevaluate pursuing such technology, which is dominated by others' patent rights, or alternatively, seek a license to practice our own invention, whether or not patented.

We also rely upon unpatented, proprietary and trade secret technology that we seek to protect, in part, by confidentiality agreements with our collaborative partners, employees, consultants, outside scientific collaborators, sponsored researchers and other advisors. There can be no assurance that these agreements provide meaningful protection or that they will not be breached, that we would have adequate remedies for any such breach or that our trade secrets, proprietary know-how and technological advances will not otherwise become known to others. In addition, there can be no assurance that, despite precautions taken by us, others have not and will not obtain access to our proprietary technology or that such technology will not be found to be non-proprietary or not a trade secret.

***Our products may face competition from lower cost generic or follow-on products and providers of these products may be able to sell them at a substantially lower cost than us.***

Generic drug manufacturers are seeking to compete with our drugs and present an important challenge to us. Even if our patent applications, or those we have licensed-in, are issued, innovative and generic drug manufacturers and other competitors may challenge the scope, validity or enforceability of such patents in court, requiring us to engage in complex, lengthy and costly litigation. Alternatively, innovative and generic drug manufacturers and other competitors may be able to design around our owned or licensed patents and compete with us using the resulting alternative technology. If any of our issued or licensed patents are infringed or challenged, we may not be successful in enforcing or defending our or our licensor's intellectual property rights and subsequently may not be able to develop or market the applicable product exclusively.

Upon the expiration or loss of patent protection for one of our products, or upon the at-risk launch (despite pending patent infringement litigation against the generic product) by a generic manufacturer of a generic version of one of our products, we can quickly lose a significant portion of our sales of that product, which can adversely affect our business. In addition, if generic versions of our competitors' branded products lose their market exclusivity, our patented products may face increased competition which can adversely affect our business.

The FDA approval process allows for the approval of an ANDA or 505(b)(2) application for a generic version of our approved products upon the expiration, through passage of time or successful legal challenge, of relevant patent or non-patent exclusivity protection. Generic manufacturers pursuing ANDA approvals are not required to conduct costly and time-consuming clinical trials to establish the safety and efficacy of their products; rather, they are permitted to rely on the innovator's data regarding safety and efficacy. Thus, generic manufacturers can sell their products at prices much lower than those charged by the innovative pharmaceutical or biotechnology companies who have incurred substantial expenses associated with the research and development of the drug product. Accordingly, while our products currently may retain certain regulatory and or patent exclusivity, our products are or will be subject to ANDA applications to the FDA in light of the Hatch-Waxman Amendments to the Federal Food, Drug and Cosmetic Act. The ANDA procedure includes provisions allowing generic manufacturers to challenge the effectiveness of the innovator's patent protection prior to the generic manufacturer actually commercializing their products the so-called Paragraph IV certification procedure. In recent years, generic manufacturers have used Paragraph IV certifications extensively to challenge the applicability of Orange Book-listed patents on a wide array of innovative pharmaceuticals, and we expect this trend to continue. During the exclusivity periods, the FDA is generally prevented from granting effective approval of an ANDA. Upon the expiration of the applicable exclusivities, through passage of time or successful legal challenge, the FDA may grant effective approval of an ANDA for a generic drug, or may accept reference to a previously protected NDA in a 505(b)(2) application. Further, upon such expiration event, the FDA may require a generic competitor to participate in some form of risk management system which could include our participation as well. Depending upon the scope of the applicable exclusivities, any such approval could be limited to certain formulations and/or indications/claims, i.e., those not covered by any outstanding exclusivities.

If an ANDA filer or a generic manufacturer were to receive approval to sell a generic or follow-on version of one of our products, that product would become subject to increased competition and our revenues for that product would be adversely affected.

We have received a Paragraph IV Certification Letter dated August 30, 2010, advising us that Natco Pharma Limited of Hyderabad, India, or Natco, submitted an ANDA to the FDA. See Part I, Item 1, Note 17, to Notes to Unaudited Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for further information.

*If we are not able to effectively compete our business will be adversely affected.*

The pharmaceutical and biotech industry in which we operate is highly competitive and subject to rapid and significant technological change. Our present and potential competitors include major pharmaceutical and biotechnology companies, as well as specialty pharmaceutical firms, including, but not limited to:

- Takeda and Johnson & Johnson, which compete with REVLIMID® and THALOMID® in the treatment of multiple myeloma and in clinical trials with our compounds;
- Eisai Co., Ltd., SuperGen, Inc. and Johnson & Johnson, which compete or may potentially compete with VIDAZA®, in addition Eisai Co., Ltd. potentially competes with ABRAXANE®, and in other oncology products in general;
- Amgen, which potentially competes with our TNF- and kinase inhibitors;
- AstraZeneca PLC, which potentially competes in clinical trials with our compounds and TNF- inhibitors;
- Biogen Idec Inc. is generally developing drugs that address the oncology and immunology markets;

- Bristol Myers Squibb Co., which potentially competes with ABRAXANE®, and in clinical trials with our compounds and TNF-inhibitors, in addition to other oncology products in general;
- F. Hoffman-La Roche Ltd., which potentially competes in clinical trials with our ®TNF- inhibitors, in addition to other oncology products in general;
- Johnson & Johnson, which potentially competes with certain of our proprietary programs, including our oral anti-inflammatory programs;
- Abbott Laboratories, which potentially competes with our oral anti-inflammatory programs;
- Novartis, which potentially competes with our compounds and kinase programs;
- Pfizer, which potentially competes in clinical trials with our kinase inhibitors; and
- Sanofi, which competes with ABRAXANE®, in addition to other oncology products in general.

Many of these companies have considerably greater financial, technical and marketing resources than we do. This enables them, among other things, to make greater research and development investments and spread their research and development costs, as well as their marketing and promotion costs, over a broader revenue base. Our competitors may also have more experience and expertise in obtaining marketing approvals from the FDA, and other regulatory authorities. We also experience competition from universities and other research institutions, and in some instances, we compete with others in acquiring technology from these sources. The pharmaceutical industry has undergone, and is expected to continue to undergo, rapid and significant technological change, and we expect competition to intensify as technical advances in the field are made and become more widely known. The development of products, including generics, or processes by our competitors with significant advantages over those that we are seeking to develop could cause the marketability of our products to stagnate or decline.

***A decline of global economic conditions could adversely affect our results of operations.***

Sales of our products are dependent, in large part, on reimbursement from government health administration authorities, private health insurers, distribution partners and other organizations. As a result of global credit and financial market conditions, these organizations may be unable to satisfy their reimbursement obligations or may delay payment. In addition, U.S. federal and state health authorities may reduce Medicare and Medicaid reimbursements, and private insurers may increase their scrutiny of claims. A reduction in the availability or extent of reimbursement could negatively affect our product sales, revenue and cash flows.

See our discussion of accounts receivable from Italy, Spain and Portugal in the Management Discussion and Analysis section of this Quarterly Report on Form 10-Q, under the caption *Liquidity and Capital Resources* for details related to amounts receivable from the government owned or controlled hospitals in Italy, Spain and Portugal.

Due to tightened global credit, there may be a disruption or delay in the performance of our third-party contractors, suppliers or collaborators. We rely on third parties for several important aspects of our business, including portions of our product manufacturing, royalty revenue, clinical development of future collaboration products, conduct of clinical trials and raw materials. If such third parties are unable to satisfy their commitments to us, our business could be adversely affected.

***We may be required to modify our business practices, pay fines and significant expenses or experience losses due to litigation or governmental investigations.***



From time to time, we may be subject to litigation or governmental investigation on a variety of matters, including, without limitation, regulatory, intellectual property, product liability, antitrust, consumer, whistleblower, commercial, securities and employment litigation and claims and other legal proceedings that may arise from the conduct of our business as currently conducted or as conducted in the future.

In particular, we are subject to significant product liability risks as a result of the testing of our products in human clinical trials and for products that we sell after regulatory approval.

Pharmaceutical companies involved in Hatch-Waxman litigation are often subject to follow-on lawsuits and governmental investigations, which may be costly and could result in lower-priced generic products that are competitive with our products being introduced to the market.

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

In the first quarter of 2011, the United States Attorney for the Central District of California informed us that we were under investigation relating to our promotion of the drugs THALOMID® and REVLIMID® regarding alleged off-label marketing and improper payments to physicians. We are cooperating with the United States Attorney in connection with this investigation.

On January 20, 2011, the Supreme Court of Canada ruled that the jurisdiction of the Patented Medicine Prices Review Board, or the PMPRB, extends to sales of drugs to Canadian patients even if the locus of sale is within the United States. This means that our U.S. sales of THALOMID® brand drug to Canadian patients under the special access program are subject to PMPRB jurisdiction from and after January 12, 1995. In accordance with the ruling of the Supreme Court of Canada, we have provided to-date data regarding these special access program sales to the PMPRB. In light of the approval of THALOMID® brand drug by Health Canada on August 4, 2010, this drug is now sold through our Canadian entity and is no longer sold to Canadian patients from the United States. On January 20, 2012, we received confirmation that PMPRB accepted a Voluntary Compliance Undertaking for THALOMID® brand drug, which required us to make a payment of CAD \$10 million to the Government of Canada in February 2012.

Litigation and governmental investigations are inherently unpredictable and may:

- result in rulings that are materially unfavorable to us, including claims for significant damages, fines or penalties, and administrative remedies, such as exclusion and/or debarment from government programs, or other rulings that prevent us from operating our business in a certain manner;
- cause us to change our business operations to avoid perceived risks associated with such litigation or investigations;
- have an adverse affect on our reputation and the demand for our products; and
- require the expenditure of significant time and resources, which may divert the attention of our management and interfere with the pursuit of our strategic objectives.



While we maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover the total amount of all insured claims and liabilities. It also is not possible to obtain insurance to protect against all potential risks and liabilities. If any litigation or governmental investigation were to have a material adverse result, there could be a material impact on our results of operations, cash flows or financial position. See also Legal Proceedings contained in Part II, Item 1 of this report.

***The development of new biopharmaceutical products involves a lengthy and complex process, and we may be unable to commercialize any of the products we are currently developing.***

Many of our drug candidates are in the early or mid-stages of research and development and will require the commitment of substantial financial resources, extensive research, development, preclinical testing, clinical trials, manufacturing scale-up and regulatory approval prior to being ready for sale. This process involves a high degree of risk and takes many years. Our product development efforts with respect to a product candidate may fail for many reasons, including the failure of the product candidate in preclinical studies; adverse patient reactions to the product candidate or indications or other safety concerns; insufficient clinical trial data to support the effectiveness or superiority of the product candidate; our inability to manufacture sufficient quantities of the product candidate for development or commercialization activities in a timely and cost-efficient manner; our failure to obtain, or delays in obtaining, the required regulatory approvals for the product candidate, the facilities or the process used to manufacture the product candidate; or changes in the regulatory environment, including pricing and reimbursement, that make development of a new product or of an existing product for a new indication no longer desirable. Moreover, our commercially available products may require additional studies with respect to approved indications as well as new indications pending approval.

The stem cell products that we are developing through our Celgene Cellular Therapeutics, or CCT, subsidiary may represent substantial departures from established treatment methods and will compete with a number of traditional products and therapies which are now, or may be in the future, manufactured and marketed by major pharmaceutical and biopharmaceutical companies. Furthermore, public attitudes may be influenced by claims that stem cell therapy is unsafe, and stem cell therapy may not gain the acceptance of the public or the medical community.

Due to the inherent uncertainty involved in conducting clinical studies, we can give no assurances that our studies will have a positive result or that we will receive regulatory approvals for our new products or new indications.

***Manufacturing and distribution risks including a disruption at certain of our manufacturing and distribution sites would significantly interrupt our production capabilities, which could result in significant product delays and adversely affect our results.***

We have our own manufacturing facilities for many of our products and we have contracted with third-party manufacturers and distributors to provide active pharmaceutical ingredient, or API, encapsulation, finishing services packaging and distribution services to meet our needs. These risks include the possibility that our or our suppliers' manufacturing processes and distribution channels could be partially or completely disrupted by a fire, natural disaster, terrorist attack, governmental action or military action. In the case of a disruption, we may need to establish alternative manufacturing sources for these products. This would likely lead to substantial production delays as we build or locate replacement facilities and seek and obtain the necessary regulatory approvals. If this occurs, and our finished goods inventories are insufficient to meet demand, we may be unable to satisfy customer orders on a timely basis, if at all. Further, our business interruption insurance may not adequately compensate us for any losses that may occur and we would have to bear the additional cost of any disruption. For these reasons, a significant disruptive event at certain of our manufacturing facilities or sites could materially and adversely affect our business and results of operations. In addition, if we fail to predict market demand for our products, we may be unable to sufficiently increase





production capacity to satisfy demand or may incur costs associated with excess inventory that we manufacture.

In all the countries where we sell our products, governmental regulations exist to define standards for manufacturing, packaging, labeling, distribution and storing. All of our suppliers of raw materials, contract manufacturers and distributors must comply with these regulations as applicable. In the United States, the FDA requires that all suppliers of pharmaceutical bulk material and all manufacturers of pharmaceuticals for sale in or from the United States achieve and maintain compliance with the FDA's current Good Manufacturing Practice regulations and guidelines. Our failure to comply, or failure of our third-party manufacturers to comply with applicable regulations could result in sanctions being imposed on them or us, including fines, injunctions, civil penalties, disgorgement, suspension or withdrawal of approvals, license revocation, seizures or recalls of products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our products. In addition, before any product batch produced by our manufacturers can be shipped, it must conform to release specifications pre-approved by regulators for the content of the pharmaceutical product. If the operations of one or more of our manufacturers were to become unavailable for any reason, any required FDA review and approval of the operations of an alternative supplier could cause a delay in the manufacture of our products.

If our outside manufacturers do not meet our requirements for quality, quantity or timeliness, or do not achieve and maintain compliance with all applicable regulations, our ability to continue supplying such products at a level that meets demand could be adversely affected.

We have contracted with distributors, to distribute REVLIMID®, THALOMID®, VIDAZA®, ABRAXANE® and ISTODAX®. If our distributors fail to perform and we cannot secure a replacement distributor within a reasonable period of time, we may experience adverse effects to our business and results of operations.

We are continuing to establish marketing and distribution capabilities in international markets with respect to our products. At the same time, we are in the process of obtaining necessary governmental and regulatory approvals to sell our products in certain countries. If we have not successfully completed and implemented adequate marketing and distribution support services upon our receipt of such approvals, our ability to effectively launch our products in these countries would be severely restricted.

***The consolidation of drug wholesalers and other wholesaler actions could increase competitive and pricing pressures on pharmaceutical manufacturers, including us.***

We sell our pharmaceutical products in the United States primarily through wholesale distributors and contracted pharmacies. These wholesale customers comprise a significant part of the distribution network for pharmaceutical products in the United States. This distribution network is continuing to undergo significant consolidation. As a result, a smaller number of large wholesale distributors and pharmacy chains control a significant share of the market. We expect that consolidation of drug wholesalers and pharmacy chains will increase competitive and pricing pressures on pharmaceutical manufacturers, including us. In addition, wholesalers may apply pricing pressure through fee-for-service arrangements, and their purchases may exceed customer demand, resulting in reduced wholesaler purchases in later quarters. We cannot assure you that we can manage these pressures or that wholesaler purchases will not decrease as a result of this potential excess buying.

***Risks from the improper conduct of employees, agents or contractors or collaborators could adversely affect our business or reputation.***

We cannot ensure that our compliance controls, policies and procedures will in every instance protect us from acts committed by our employees, agents, contractors or collaborators that would violate the laws or regulations of the jurisdictions in which we operate, including without limitation, employment, foreign

corrupt practices, environmental, competition and privacy laws. Such improper actions could subject us to civil or criminal investigations, monetary and injunctive penalties and could adversely impact our ability to conduct business, results of operations and reputation.

***The integration of acquired businesses may present significant challenges to us.***

We may face significant challenges in effectively integrating entities and businesses that we may acquire and we may not realize the benefits anticipated from such acquisitions. Achieving the anticipated benefits of our acquired businesses will depend in part upon whether we can integrate our businesses in an efficient and effective manner. Our integration of acquired businesses involves a number of risks, including, but not limited to:

- demands on management related to the increase in our size after the acquisition;
- the diversion of management's attention from the management of daily operations to the integration of operations;
- higher integration costs than anticipated;
- failure to achieve expected synergies and costs savings;
- difficulties in the assimilation and retention of employees;
- difficulties in the assimilation of different cultures and practices, as well as in the assimilation of broad and geographically dispersed personnel and operations; and
- difficulties in the integration of departments, systems, including accounting systems, technologies, books and records, and procedures, as well as in maintaining uniform standards, controls, including internal control over financial reporting required by the Sarbanes-Oxley Act of 2002 and related procedures and policies.

If we cannot successfully integrate acquired businesses we may experience material negative consequences to our business, financial condition or results of operations. Successful integration of acquired businesses will depend on our ability to manage these operations, to realize opportunities for revenue growth presented by offerings and expanded geographic market coverage and, to some degree, to eliminate redundant and excess costs. Because of difficulties in combining geographically distant operations, we may not be able to achieve the benefits that we hope to achieve as a result of the acquisition of acquired businesses.

***Our inability to continue to attract and retain key leadership, managerial, commercial and scientific talent could adversely affect our business.***

The success of our business depends, in large part, on our continued ability to (i) attract and retain highly qualified management, scientific, manufacturing and commercial personnel, (ii) successfully integrate large numbers of new employees into our corporate culture and (iii) develop and maintain important relationships with leading research and medical institutions and key distributors. Competition for these types of personnel and relationships is intense.

Among other benefits, we use share-based compensation to attract and retain personnel. Share-based compensation accounting rules require us to recognize all share-based compensation costs as expenses. These or other factors could reduce the number of shares and options management

and our board of directors grants under our incentive plan. We cannot be sure that we will be able to attract or retain skilled personnel

or maintain key relationships, or that the costs of retaining such personnel or maintaining such relationships will not materially increase.

***We could be subject to significant liability as a result of risks associated with using hazardous materials in our business.***

We use certain hazardous materials in our research, development, manufacturing and general business activities. While we believe we are currently in substantial compliance with the federal, state and local laws and regulations governing the use of these materials, we cannot be certain that accidental injury or contamination will not occur. If an accident or environmental discharge occurs, or if we discover contamination caused by prior operations, including by prior owners and operators of properties we acquire, we could be liable for cleanup obligations, damages and fines. This could result in substantial liabilities that could exceed our insurance coverage and financial resources. Additionally, the cost of compliance with environmental and safety laws and regulations may increase in the future, requiring us to expend more financial resources either in compliance or in purchasing supplemental insurance coverage.

***Changes in our effective income tax rate could adversely affect our results of operations.***

We are subject to income taxes in both the United States and various foreign jurisdictions, and our domestic and international tax liabilities are dependent upon the distribution of income among these different jurisdictions. Various factors may have favorable or unfavorable effects on our effective income tax rate. These factors include, but are not limited to, interpretations of existing tax laws, the accounting for stock options and other share-based compensation, changes in tax laws and rates, future levels of research and development spending, changes in accounting standards, changes in the mix of earnings in the various tax jurisdictions in which we operate, the outcome of examinations by the U.S. Internal Revenue Service and other jurisdictions, the accuracy of our estimates for unrecognized tax benefits and realization of deferred tax assets, and changes in overall levels of pre-tax earnings. The impact on our income tax provision resulting from the above-mentioned factors may be significant and could have an impact on our results of operations.

***Currency fluctuations and changes in exchange rates could increase our costs and may cause our profitability to decline.***

We collect and pay a substantial portion of our sales and expenditures in currencies other than the U.S. dollar. Therefore, fluctuations in foreign currency exchange rates affect our operating results.

We utilize foreign currency forward contracts, which are derivative instruments, to manage foreign currency risk, but not to engage in currency speculation. We use these forward contracts to hedge certain forecasted transactions and balance sheet exposures denominated in foreign currencies. The use of these derivative instruments is intended to mitigate the exposure of these risks with the intent to reduce our risk or cost, but may not fully offset any change in operating results as a consequence of fluctuations in foreign currencies. Any significant foreign exchange rate fluctuations could adversely affect our financial condition and results of operations.

***We may experience an adverse market reaction if we are unable to meet our financial reporting obligations.***

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As we continue to expand at a rapid pace, the development of new and/or improved automated systems will remain an ongoing priority. During this expansion period, our internal control over financial reporting may not prevent or detect misstatements in our financial reporting. Such misstatements may result in litigation and/or negative publicity and possibly cause an adverse market reaction that may negatively impact our growth plans and the value of our common stock.

*The price of our common stock may fluctuate significantly and you may lose some or all of your investment in us.*

The market for our shares of common stock may be subject to conditions that cause prices to fluctuate significantly. The following key factors may have an adverse impact on the market price of our common stock:

- results of our clinical trials or adverse events associated with our marketed products;
- fluctuations in our commercial and operating results;
- announcements of technical or product developments by us or our competitors;
- market conditions for pharmaceutical and biotechnology stocks in particular;
- stock market conditions generally;
- changes in governmental regulations and laws, including, without limitation, changes in tax laws, health care legislation, environmental laws, competition laws, and patent laws;
- new accounting pronouncements or regulatory rulings;
- public announcements regarding medical advances in the treatment of the disease states that we are targeting;
- patent or proprietary rights developments;
- changes in pricing and third-party reimbursement policies for our products;
- the outcome of litigation involving our products or processes related to production and formulation of those products or uses of those products;
- other litigation or governmental investigations;
- competition; and
- investor reaction to announcements regarding business or product acquisitions.

In addition, our operations may be materially affected by conditions in the global markets and economic conditions throughout the world. The global market and economic climate may deteriorate because of many factors beyond our control, including economic instability and market volatility, sovereign debt issues, rising interest rates or inflation, terrorism or political uncertainty. In the event of a market downturn in general and/or the biopharmaceutical sector in particular, the market price of our common stock may be adversely affected.

*Our business could be adversely affected if we are unable to service our obligations under our incurred indebtedness.*

We have incurred various forms of indebtedness including senior notes, commercial paper, a senior unsecured credit facility and a credit facility. Our ability to pay interest, principal amounts when due at maturity, to comply with debt covenants or to repurchase the senior notes if a change of control occurs will depend upon, among other things, continued commercial success of our products and other





factors that affect our future financial and operating performance, including, without limitation, prevailing economic conditions and financial, business, and regulatory factors, many of which are beyond our control.

If we are unable to generate sufficient cash flow to service the debt service requirements under our incurred indebtedness, we may be forced to take actions such as:

- restructuring or refinancing our debt;
- seeking additional debt or equity capital;
- reducing or delaying our business activities, acquisitions, investments or capital expenditures, including research and development expenditures; or
- selling assets, businesses, products or other potential revenue streams.

Such measures might not be successful and might not enable us to service our obligations under our indebtedness. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms.

***A breakdown or breach of our information technology systems could subject us to liability or interrupt the operation of our business.***

We rely upon our information technology systems and infrastructure for our business. The size and complexity of our computer systems make them potentially vulnerable to breakdown, malicious intrusion and random attack. Likewise, data privacy breaches by employees and others who access our systems may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. While we believe that we have taken appropriate security measures to protect our data and information technology systems, there can be no assurance that our efforts will prevent breakdowns or breaches in our systems that could adversely affect our business.

***We have certain charter and by-law provisions that may deter a third-party from acquiring us and may impede the stockholders' ability to remove and replace our management or board of directors.***

Our board of directors has the authority to issue, at any time, without further stockholder approval, up to 5,000,000 shares of preferred stock, and to determine the price, rights, privileges and preferences of those shares. An issuance of preferred stock could discourage a third-party from acquiring a majority of our outstanding voting stock. Additionally, our board of directors has adopted certain amendments to our by-laws intended to strengthen the board's position in the event of a hostile takeover attempt. These provisions could impede the stockholders' ability to remove and replace our management and/or board of directors. Furthermore, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law, which may also dissuade a potential acquirer of our common stock.

***In addition to the risks relating to our common stock, CVR holders are subject to additional risks.***

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On October 15, 2010, we acquired all of the outstanding common stock of Abraxis and in connection with our acquisition, contingent value rights, or CVRs, were issued under a CVR Agreement entered into between us and American Stock Transfer & Trust Company, LLC, as trustee. A copy of the CVR Agreement was filed on Form 8-A with the SEC on October 15, 2010. Pursuant to the CVR Agreement, each holder of a CVR is entitled to receive a *pro rata* portion, based on the number of CVRs then outstanding, of certain milestone and net sales payments if certain specified conditions are satisfied. For more information, see Note 2 of Notes to Consolidated Financial Statements contained in the 2011 Annual Report on Form 10-K.

In addition to the risks relating to our common stock, CVR holders are subject to additional risks, including:

- an active public market for the CVRs may not develop or the CVRs may trade at low volumes, both of which could have an adverse effect on the resale price, if any, of the CVRs;
- because a public market for the CVRs has a limited history, the market price and trading volume of the CVRs may be volatile;
- if the clinical approval milestones specified in the CVR Agreement are not achieved for any reason within the time periods specified therein, and if net sales do not exceed the thresholds set forth in the CVR Agreement for any reason within the time periods specified therein, no payment will be made under the CVRs and the CVRs will expire valueless;
- since the U.S. federal income tax treatment of the CVRs is unclear, any part of any CVR payment could be treated as ordinary income and required to be included in income prior to the receipt of the CVR payment;
- any payments in respect of the CVRs are subordinated to the right of payment of certain of our other indebtedness;
- we may under certain circumstances redeem the CVRs; and
- upon expiration of our obligations to achieve each of the CVR milestones and to commercialize ABRAXANE® or any of the other Abraxis pipeline products, we may discontinue such efforts, which would have an adverse effect on the value, if any, of the CVRs.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(c) Issuer Purchases of Equity Securities

The following table presents the total number of shares purchased during the three-month period ended March 31, 2012, the average price paid per share, the number of shares that were purchased and the approximate dollar value of shares that still could have been purchased, pursuant to our publicly announced repurchase program:

| Period                   | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs |
|--------------------------|----------------------------------|------------------------------|--|--|
| January 1 - January 31   | 1,250,000                        | \$ 70.99                     | 1,250,000  | \$ 1,298,395,554   |
| February 1 - February 29 | 500,000                          | \$ 72.63                     | 500,000  | \$ 1,262,079,724   |
| March 1 - March 31       | 600,000                          | \$ 72.93                     | 600,000  | \$ 1,218,319,804   |

In April 2009, our Board of Directors approved a \$0.5 billion common share repurchase program, which was subsequently increased by \$3.5 billion to an aggregate of up to \$4.0 billion of our common shares that may be repurchased under this program. Approved amounts exclude share repurchase transaction fees.

As of March 31, 2012 an aggregate 48,179,385 common shares were repurchased under the program at an average price of \$57.74 per common share and total cost of \$2.783 billion, including share repurchase transaction fees.

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During the period covered by this report, we did not sell any of our equity shares that were not registered under the Securities Act of 1933, as amended.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

31.1 Certification by the Company's Chief Executive Officer.

31.2 Certification by the Company's Chief Financial Officer.

32.1 Certification by the Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350.

32.2 Certification by the Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

101 The following materials from Celgene Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows and (v) Notes to Unaudited Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CELGENE CORPORATION

DATE: May 2, 2012

By: /s/Jacquelyn A. Fouse  
Jacquelyn A. Fouse  
Executive Vice President  
Chief Financial Officer