CELGENE CORP /DE/
Form 10-Q
July 29, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark one)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________to _____________

Commission File Number 001-34912
CELGENE CORPORATION
(Exact name of registrant as specified in its charter)

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

(908) 673-9000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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 July 22, 2014, 799,510,100 shares of Common Stock, par value $.01 per share, were outstanding, reflecting the two-for-one Common Stock split effected in June 2014.

Table of Contents

CELGENE CORPORATION

FORM 10-Q TABLE OF CONTENTS

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited).

CELGENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In millions, except per share amounts)

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Net product sales	$1,844.6	$1,564.1	$3,552.1	$2,993.4
Collaborative agreements and other revenue	2.7	3.1	4.6	10.2
Royalty revenue	25.4	31.8	46.0	60.0
Total revenue	1,872.7	1,599.0	3,602.7	3,063.6
Expenses:				
Cost of goods sold (excluding amortization of acquired intangible assets)	98.9	80.9	185.0	161.4
Research and development	456.9	458.1	1,170.6	910.5
Selling, general and administrative	491.8	418.1	985.9	787.1
Amortization of acquired intangible assets	65.3	65.7	131.0	131.4
Acquisition related charges, net	0.9	12.5	9.5	45.7
Total costs and expenses	1,113.8	1,035.3	2,482.0	2,036.1
Operating income	758.9	563.7	1,120.7	1,027.5
Other income and (expense):				
Interest and investment income, net	7.3	4.5	13.7	9.3
Interest (expense)	(41.6)	(19.6)	(70.9)	(37.5)
Other income (expense), net	(17.8)	9.2	(24.4)	6.9
Income before income taxes	706.8	557.8	1,039.1	1,006.2
Income tax provision	109.0	79.7	161.6	143.2
Net income	$597.8	$478.1	$877.5	$863.0
Net income per common share (Note1):				
Basic	$0.75	$0.58	$1.09	$1.04
Diluted	$0.72	$0.56	$1.05	$1.00
Weighted average shares (Note 1):				
Basic	799.6	828.2	805.5	832.0
Diluted	831.0	858.5	838.0	861.9

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in millions)

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
	2014	2013	2014	2013
Net income	$597.8	$478.1	$877.5	$863.0
Other comprehensive income (loss):				
Foreign currency translation adjustments	1.1	10.0	4.1	4.1
Net unrealized gains (losses) related to cash flow hedges:				
Unrealized holding gains (losses), net of tax expense (benefit) of ($8.9) and $0 for the three-months ended June 30, 2014, and 2013, respectively, and ($12.6) and $0.2 for the six-months ended June 30, 2014, and 2013, respectively.	(12.8)	11.5	(27.7)	86.4
Reclassification adjustment for (gains) losses included in net income, net of tax (expense) benefit of $0.4 and $2.8 for the three-months ended June 30, 2014 and 2013, respectively, and $0.7 and $6.2 for the six-months ended June 30, 2014 and 2013, respectively.	2.6	(4.0)	4.2	(0.2)
Net unrealized gains (losses) on marketable securities available for sale:		—		
Unrealized holding gains (losses), net of tax expense (benefit) of $16.1 and $19.9 for the three-months ended June 30, 2014 and 2013, respectively, and $45.1 and $19.9 for the six-months ended June 30, 2014 and 2013, respectively.	31.9	34.9	87.2	33.0
Reclassification adjustment for (gains) losses included in net income, net of tax (expense) benefit of $0.6 and $1.0 for the three-months ended June 30, 2014 and 2013, respectively, and $1.1 and $1.0 for the six-months ended June 30, 2014 and 2013.	1.0	1.4	1.9	2.2
Total other comprehensive income (loss)	23.8	53.8	69.7	125.5
Comprehensive income	$621.6	$531.9	$947.2	$988.5

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions, except per share amounts)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$3,219.5	$3,234.4
Marketable securities available for sale	2,993.5	2,452.6
Accounts receivable, net of allowances of $37.1 and $40.0 at June 30, 2014 and December 31, 2013, respectively	1,124.4	1,061.4
Inventory	360.0	340.4
Deferred income taxes	27.0	25.3
Other current assets	382.6	436.4
Total current assets	8,107.0	7,550.5
Property, plant and equipment, net	605.1	593.4
Intangible assets, net	4,325.8	2,839.7
Goodwill	2,191.2	2,041.2
Other assets	372.8	353.4
Total assets	$15,601.9	$13,378.2
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings	$192.3	$544.8
Accounts payable	184.5	156.2
Accrued expenses	848.8	1,001.1
Income taxes payable	15.6	16.0
Current portion of deferred revenue	33.5	27.7
Other current liabilities	216.9	199.7
Total current liabilities	1,491.6	1,945.5
Deferred revenue, net of current portion	27.7	23.7
Income taxes payable	259.2	235.0
Deferred income taxes	659.5	804.9
Other non-current liabilities	1,569.3	582.7
Long-term debt, net of discount	6,743.3	4,196.5
Total liabilities	10,750.6	7,788.3
Commitments and Contingencies (Note 15)		
Stockholders' Equity:		
Preferred stock, $.01 par value per share, 5.0 million shares authorized; none outstanding at June 30, 2014 and December 31, 2013, respectively	—	—
Common stock, $.01 par value per share, 1,150.0 million shares authorized; issued 915.1 million and 906.5 million shares at June 30, 2014 and December 31, 2013, respectively (Note 1)	9.2	9.1
Common stock in treasury, at cost; 115.9 million and 101.5 million shares at June 30, 2014 and December 31, 2013, respectively (Note 1)	(9,837.1)	(7,662.1)
Additional paid-in capital (Note 1)	9,165.5	8,676.4
Retained earnings	5,350.0	4,472.5
Accumulated other comprehensive income	163.7	94.0

Total stockholders’ equity	4,851.3	5,589.9
Total liabilities and stockholders’ equity	$15,601.9	$13,378.2

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	Six-Month Periods Ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$877.5	$863.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	52.1	47.4
Amortization	136.4	135.8
Deferred income taxes	(181.1)	(94.9)
Impairment charges	2.0	18.8
Change in value of contingent consideration	9.5	45.7
Share-based compensation expense	207.8	135.4
Share-based employee benefit plan expense	17.6	14.0
Reclassification adjustment for cash flow hedges included in net income	4.9	6.0
Unrealized change in value of derivative instruments	(16.5)	(21.0)
Other, net	(1.2)	6.9
Change in current assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	(61.8)	(74.8)
Inventory	(19.1)	(45.2)
Other operating assets	36.7	(53.7)
Accounts payable and other operating liabilities	(20.1)	97.5
Income tax payable	24.8	10.7
Payment of contingent consideration	(5.0)	—
Deferred revenue	8.3	12.5
Net cash provided by operating activities	1,072.8	1,104.1
Cash flows from investing activities:		
Proceeds from sales of marketable securities available for sale	1,144.0	1,329.1
Purchases of marketable securities available for sale	(1,556.3)	(1,773.4)
Payments for acquisition of business	(710.0)	—
Purchases of intellectual property and other assets	(2.0)	(9.4)
Capital expenditures	(61.4)	(61.3)
Purchases of investment securities	(22.5)	(10.4)
Other investing activities	2.3	(1.5)
Net cash used in investing activities	(1,205.9)	(526.9)
Cash flows from financing activities:		
Payment for treasury shares	(2,182.2)	(1,877.9)
Proceeds from short-term borrowing	2,235.4	3,211.0
Principal repayments on short-term borrowing	(2,588.0)	(2,633.8)
Proceeds from issuance of long-term debt	2,470.6	—
Proceeds from sale of common equity put options	5.2	—
Payment of contingent consideration	(15.0)	—
Net proceeds from share-based compensation arrangements	94.0	320.5
Excess tax benefit from share-based compensation arrangements	90.0	81.2
Net cash provided by (used in) financing activities	110.0	(899.0)
Effect of currency rate changes on cash and cash equivalents	8.2	(26.3)

Net decrease in cash and cash equivalents	(14.9)	(348.1)
Cash and cash equivalents at beginning of period	3,234.4	2,090.4
Cash and cash equivalents at end of period	$3,219.5	$1,742.3

See accompanying Notes to Unaudited Consolidated Financial Statements

6

Table of Contents

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

	Six-Month Periods Ended June 30,	
	2014	2013
Supplemental schedule of non-cash investing and financing activity:		
Fair value of contingent consideration issued in business combinations	$1,060.0	$—
Change in net unrealized (gain) loss on marketable securities available for sale	$(132.3)	$(52.9)
Investment in NantBioScience, Inc. preferred equity	$90.0	$—
Supplemental disclosure of cash flow information:		
Interest paid	$75.9	$45.8
Income taxes paid	$193.4	$154.8

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

CELGENE CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In all accompanying tables, amounts of dollars expressed in millions,
except per share amounts, unless otherwise indicated)

1. Nature of Business and Basis of Presentation

Celgene Corporation, together with its subsidiaries (collectively “we,” “our,” “us,” “Celgene” or the “Company”) is 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 designed to bring new therapies to market and are involved in research in several scientific areas designed to 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®, ABRAXANE®, VIDAZA®, POMALYST®/IMNOVID®, THALOMID® (inclusive of Thalidomide Celgene™), azacitidine for injection (generic version of VIDAZA®), ISTODAX® and OTEZLA®. OTEZLA® was approved by the U.S. Food and Drug Administration (FDA) in March 2014 for the treatment of adult patients with active psoriatic arthritis and we began recognizing revenue related to OTEZLA® during the second quarter of 2014.

Additional sources of revenue include royalties from Novartis Pharma AG (Novartis) on their sales of FOCALIN XR® and the entire RITALIN® family of drugs, the sale of products and services through our Celgene Cellular Therapeutics (CCT) subsidiary and other licensing 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. Certain prior year amounts have been reclassified to conform to the current year's presentation.

In June 2014, our stockholders voted to approve an amendment to our Certificate of Incorporation that increased the number of shares of common stock that we are authorized to issue and effected a two-for-one stock split of outstanding shares (Stock Split). As a result, our total number of authorized shares of common stock increased from 575.0 million to 1.150 billion on June 18, 2014. Stockholders of record received one additional share of common stock for each share of common stock owned. All impacted share numbers and per share amounts presented in the accompanying consolidated financial statements and the accompanying notes to the financial statements have been restated to reflect the impact of the Stock Split. Common stock held in treasury was not adjusted for the Stock Split.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. We are subject to certain risks and uncertainties related to, among other things, product development, regulatory approval, market acceptance, scope of patent and proprietary rights, competition, outcome of legal and governmental proceedings, European credit risk, technological change and product liability.

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

2. Summary of Significant Accounting Policies

Our significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Annual Report on Form 10-K).

New Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09). ASU 2014-09 supersedes nearly all existing revenue recognition guidance under U.S. GAAP and requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This accounting guidance is effective for us beginning in the first quarter of 2017 using one of two prescribed transition methods. Early adoption is not permitted. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

3. Acquisition

Nogra Pharma Limited (Nogra): On April 23, 2014, we entered into a license agreement with Nogra, pursuant to which Nogra granted us an exclusive, royalty-bearing license in its intellectual property relating to GED-0301, an antisense oligonucleotide targeting Smad7, to develop and commercialize products containing GED-0301 for the treatment of Crohn’s disease and other indications. A phase II trial of GED-0301 in patients with active Crohn's disease has been completed and we plan to initiate a phase III trial before year-end 2014.
Under the terms of the agreement, which became effective on May 14, 2014 after receipt of certain governmental clearances and approvals, we made an upfront payment of $710.0 million and may make additional contingent developmental, regulatory and sales milestone payments as well as payments based on percentages of annual sales of licensed products. The maximum aggregate amount payable for development and regulatory milestones is approximately $815.0 million, which covers such milestones relating to Crohn’s disease and other indications. Starting from global annual net sales of $500.0 million, aggregate tiered sales milestone payments could total a maximum of $1.050 billion if global annual net sales reach $4.000 billion.
The development and application of the intellectual property covered under the license agreement will be managed by joint committees composed of members from each of Nogra and us. We have the tie-breaking vote on the joint steering committee and as such have ultimate decision-making authority for development, regulatory and commercialization decisions. The agreement also includes provisions for access to employees of Nogra, technical assistance, transfer of manufacturing agreements and transfer of Nogra know-how related to GED-0301. Based on the foregoing factors, for accounting purposes, we have concluded that the acquired assets meet the definition of a business and have accounted for the GED-0301 license as in-process research and development (IPR&D) acquired in a business combination. The acquisition method of accounting requires that (a) the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date and (b) the fair value of IPR&D be classified as an indefinite-lived asset until the successful completion or abandonment of the associated research and development efforts. Pro-forma results of operations for this acquisition have not been presented because this acquisition is not material to our consolidated results of operations.
A preliminary purchase price allocation has been made and the recorded amounts are subject to change. Finalization of valuation efforts could result in changes in the amounts recorded for the fair value of contingent consideration, goodwill, IPR&D, and associated deferred tax assets and liabilities.

The amounts recognized will be finalized as the information necessary to complete the analysis is obtained, but no later than one year from the acquisition date. Adjustments, if any, could require retrospective application if they materially impact our financial statements.
The fair value of consideration transferred to acquire the license amounted to:

	Fair Value at the Acquisition Date
Cash	$710.0
Contingent consideration	1,060.0
Total fair value of consideration transferred	$1,770.0

Our potential contingent consideration payments are classified as liabilities, which were measured at fair value as of the acquisition date, with $5.0 million classified as current liabilities and $1.055 billion classified as non-current liabilities. 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 inputs that are not observable in the market and thus represents a level three liability within the fair value hierarchy. The resulting probability weighted cash flows were discounted using a discount rate based on a market participant assumption.

Table of Contents

The preliminary purchase price allocation resulted in the following amounts being allocated to the assets acquired at the acquisition date based on their respective fair values:

	Fair Value at the Acquisition Date
In-process research and development product rights	$1,620.0
Current deferred tax asset	1.3
Non-current deferred tax liability	(1.3)
Total identifiable net assets	1,620.0
Goodwill	150.0
Total net assets acquired	$1,770.0

The fair value of the acquired IPR&D asset was based on the present value of expected net cash flows from the GED-0301 product candidate. Net cash flows were determined by estimating future sales, net of the costs to complete development of GED-0301 into a commercially viable product. Estimated net cash flows were adjusted to reflect the probability of successfully developing a new drug from a product candidate that has completed a phase II trial. Additionally, the projections considered the relevant market sizes and growth factors and the nature and expected timing of a new product introduction. The resulting net cash flows from such potential products include 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 project and uncertainties in the economic estimates used in the projections described above. Acquired IPR&D assets are accounted for as an indefinite-lived intangible asset until regulatory approval in a major market or discontinuation.

The excess of purchase price over the fair value amounts assigned to the assets acquired represents the goodwill amount resulting from the acquisition. The goodwill recorded as part of the acquisition is largely attributable to intangible assets that do not qualify for separate recognition. We expect this goodwill to be deductible for tax purposes.

The license agreement may be terminated (i) at our discretion upon 180 days' written notice to Nogra, provided that such termination will not become effective before May 14, 2017, and (ii) by either party upon material breach of the other party, subject to cure periods. Upon the expiration of our royalty payment obligations under the license agreement, on a country-by-country and licensed product-by-licensed product basis, the license granted under the license agreement will become fully paid-up, irrevocable, perpetual, and non-terminable with respect to such licensed product in such country.

4. Earnings Per Share (Note 1)

	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30,	
(Amounts in millions, except per share)	2014	2013	2014	2013
Net income	$597.8	$478.1	$877.5	$863.0
Weighted-average shares:				
Basic	799.6	828.2	805.5	832.0
Effect of dilutive securities:				
Options, restricted stock units and other incentives	31.4	30.3	32.5	29.9
Diluted	831.0	858.5	838.0	861.9
Net income per share:				
Basic	$0.75	$0.58	$1.09	$1.04
Diluted	$0.72	$0.56	$1.05	$1.00

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 13.5 million and 7.5 million shares for the three-month periods ended June 30, 2014 and 2013, respectively. The total number of potential shares of common stock excluded was 14.2 million and 8.2 million shares for the six-month periods ended June 30, 2014 and 2013, respectively.

Share Repurchase Program: In April 2014, our Board of Directors approved an increase of $4.000 billion to our authorized share repurchase program, bringing the total amount authorized since April 2009 to an aggregate of up to $13.500 billion of our common stock.

As part of the management of our share repurchase program, we may, from time to time, sell put options on our common stock with strike prices that we believe represent an attractive price to repurchase our shares. If the trading price of our shares exceeds the strike price of the put option at the time the option expires, we will have economically reduced the cost of our share repurchase program by the amount of the premium we received from the sale of the put option. If the trading price of our stock is below the strike price of the put option at the time the option expires, we would repurchase the shares covered by the option at the strike price of the put option. During the three-month period ended June 30, 2014, we sold a put option on $200.0 million notional amount of shares of our common stock, which expired unexercised in June 2014, and recorded a gain from the premium of $4.0 million, which was recorded on the Consolidated Statements of Income in other income (expense), net. During the six-month period ended June 30, 2014, we recorded a net gain of $6.4 million from selling put options on our common stock. At June 30, 2014, we had no outstanding put options. In July 2014, we sold a put option on $100.0 million notional amount of shares of our common stock with a strike price of $87.24 maturing in September 2014 for a premium of $2.2 million.

We have repurchased 3.2 million and 13.9 million shares of common stock under the share repurchase program from all sources at a total cost of $475.2 million and $2.137 billion during the three- and six-month periods ended June 30, 2014, respectively. As of June 30, 2014, we had a remaining share repurchase authorization of $3.932 billion.

5. Accumulated Other Comprehensive Income (Loss)

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

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

	Pension Liability	Net Unrealized Gains (Losses) From Marketable Securities	Net Unrealized Gains (Losses) From Hedges	Foreign Currency Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance December 31, 2013	$(6.9)	$137.3	$(36.0)	$(0.4)	$94.0
Other comprehensive income (loss) before reclassifications	—	87.2	(27.7)	4.1	63.6
Amounts reclassified from accumulated other comprehensive income	—	1.9	4.2	—	6.1
Net current-period other comprehensive income (loss)	—	89.1	(23.5)	4.1	69.7
Balance June 30, 2014	$(6.9)	$226.4	$(59.5)	$3.7	$163.7
Balance December 31, 2012	$(10.1)	$4.2	$(16.0)	$(27.8)	$(49.7)

Other comprehensive income (loss) before reclassifications	—	33.0	86.4	4.1	123.5
Amounts reclassified from accumulated other comprehensive income	—	2.2	(0.2)	—	2.0
Net current-period other comprehensive income (loss)	—	35.2	86.2	4.1	125.5
Balance June 30, 2013	$(10.1)	$39.4	$70.2	$(23.7)	$75.8

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

		Gains (Losses) Reclassified Out of Accumulated Other Comprehensive Income			
Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Income	Three-Month Periods Ended June 30,		Six-Month Periods Ended June 30	
		2014	2013	2014	2013
Gains (losses) from cash-flow hedges:					
Foreign exchange contracts	Net product sales	$(2.0)	$2.1	$(3.0)	$(4.3)
Treasury rate lock agreements	Interest (expense)	(0.8)	(0.9)	(1.7)	(1.7)
Interest rate swap agreements	Interest (expense)	(0.2)	—	(0.2)	—
	Income tax benefit (expense)	0.4	2.8	0.7	6.2
Gains (losses) from available-for-sale marketable securities:					
Realized income (loss) on sales of marketable securities	Interest and investment income, net	(1.6)	(2.4)	(3.0)	(3.2)
	Income tax benefit (expense)	0.6	1.0	1.1	1.0
Total reclassification, net of tax		$(3.6)	$2.6	$(6.1)	$(2.0)

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 June 30, 2014 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 (MBS), non-U.S. government, agency and Supranational securities, global corporate debt securities, asset backed securities, foreign currency forward contracts, purchased foreign currency options and interest rate swap contracts. 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 contingent value rights (CVRs). See Note 18 of Notes to Consolidated Financial Statements included in our 2013 Annual Report on Form 10-K for a description of the CVRs. Our Level 2 liabilities relate to foreign currency forward contracts and interest rate swap contracts, including forward starting interest rate swap contracts. Our Level 3 liabilities consist of contingent consideration related to undeveloped product rights resulting from the acquisition of Gloucester Pharmaceuticals, Inc. (Gloucester), contingent consideration related to the undeveloped product rights and the technology platform acquired from the Avila Therapeutics, Inc. (Avila) acquisition, and contingent consideration related to undeveloped product rights, regulatory and sales milestones as well as tiered royalties on sales of licensed products resulting from the acquisition of Nogra. The maximum remaining potential payments related to the contingent consideration from the acquisitions of Gloucester and Avila are estimated to be $120.0 million and $575.0 million, respectively, and $1.865 billion plus amounts based on sales pursuant to the license agreement with Nogra.

12

	Balance at June 30, 2014	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	$2,993.5	$647.1	$2,346.4	$—
Total assets	$2,993.5	$647.1	$2,346.4	$—
Liabilities:				
Forward currency contracts	$(26.4)	$—	$(26.4)	$—
Contingent value rights	(112.5)	(112.5)	—	—
Interest rate swaps	(4.0)	—	(4.0)	—
Other acquisition related contingent consideration	(1,283.6)	—	—	(1,283.6)
Total liabilities	$(1,426.5)	$(112.5)	$(30.4)	$(1,283.6)

	Balance at December 31, 2013	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	$2,452.6	$433.1	$2,019.5	$—
Cash equivalents	20.0	—	20.0	—
Total assets	$2,472.6	$433.1	$2,039.5	$—
Liabilities:				
Forward currency contracts	$(9.2)	$—	$(9.2)	$—
Contingent value rights	(118.1)	(118.1)	—	—
Interest rate swaps	(49.6)	—	(49.6)	—
Other acquisition related contingent consideration	(228.5)	—	—	(228.5)
Total liabilities	$(405.4)	$(118.1)	$(58.8)	$(228.5)

There were no security transfers between Levels 1 and 2 during the six-month periods ended June 30, 2014 and 2013.
The following table represents a roll-forward of the fair value of Level 3 instruments:

	Six-Month Periods Ended June 30,	
	2014	2013
Liabilities:		
Balance at beginning of period	$(228.5)	$(198.1)
Amounts acquired or issued	(1,060.0)	