CELGENE CORP /DE/
Form 10-Q
November 05, 2015
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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 September 30, 2015

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 October 30, 2015, 785,654,567 shares of Common Stock, par value $.01 per share, were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

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

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Net product sales	$2,312.6	$1,956.8	$6,621.9	$5,508.9
Other revenue	21.5	25.4	70.8	76.0
Total revenue	2,334.1	1,982.2	6,692.7	5,584.9
Expenses:				
Cost of goods sold (excluding amortization of acquired intangible assets)	109.9	97.7	314.7	282.7
Research and development	1,304.5	675.1	2,920.5	1,845.7
Selling, general and administrative	550.3	497.6	1,696.3	1,483.5
Amortization of acquired intangible assets	63.6	63.7	190.9	194.7
Acquisition related charges and restructuring, net	226.2	1.5	215.9	11.0
Total costs and expenses	2,254.5	1,335.6	5,338.3	3,817.6
Operating income	79.6	646.6	1,354.4	1,767.3
Other income and (expense):				
Interest and investment income, net	8.6	6.9	26.4	20.6
Interest (expense)	(88.5)	(53.5)	(186.0)	(124.4)
Other income (expense), net	(19.6)	(22.5)	83.2	(46.9)
Income (loss) before income taxes	(19.9)	577.5	1,278.0	1,616.6
Income tax provision	14.2	69.0	237.0	230.6
Net income (loss)	$(34.1)	$508.5	$1,041.0	$1,386.0
Net income (loss) per common share:				
Basic	$(0.04)	$0.64	$1.31	$1.72
Diluted	$(0.04)	$0.61	$1.26	$1.66
Weighted average shares:				
Basic	791.1	799.6	794.3	803.5
Diluted	791.1	832.8	827.7	836.4

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$(34.1)	$508.5	$1,041.0	$1,386.0
Other comprehensive income (loss):				
Foreign currency translation adjustments	(4.2)	(36.6)	(11.9)	(32.5)
Pension liability adjustment	—	—	(7.6)	—
Net unrealized gains (losses) related to cash flow hedges:				
Unrealized holding gains (losses)	(67.1)	382.8	277.0	342.5
Tax benefit	29.9	—	8.3	12.6
Unrealized holding gains (losses), net of tax	(37.2)	382.8	285.3	355.1
Reclassification adjustment for (gains) losses included in net income	(91.4)	(0.1)	(249.6)	4.8
Tax (benefit)	(0.5)	(0.5)	(1.5)	(1.2)
Reclassification adjustment for (gains) losses included in net income, net of tax	(91.9)	(0.6)	(251.1)	3.6
Net unrealized gains (losses) on marketable securities available for sale:				
Unrealized holding gains (losses)	(426.3)	64.6	(434.6)	196.9
Tax (expense) benefit	133.7	(22.2)	136.8	(67.3)
Unrealized holding gains (losses), net of tax	(292.6)	42.4	(297.8)	129.6
Reclassification adjustment for losses included in net income	10.9	1.2	11.6	4.2
Tax (benefit)	(3.9)	(0.4)	(4.1)	(1.5)
Reclassification adjustment for losses included in net income, net of tax	7.0	0.8	7.5	2.7
Total other comprehensive income (loss)	(418.9)	388.8	(275.6)	458.5
Comprehensive income (loss)	$(453.0)	$897.3	$765.4	$1,844.5

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$6,016.5	$4,121.6
Marketable securities available for sale	1,489.1	3,425.1
Accounts receivable, net of allowances of $31.5 and $32.1 at September 30, 2015 and December 31, 2014, respectively	1,272.4	1,166.7
Inventory	420.9	393.1
Deferred income taxes	249.6	11.7
Other current assets	703.9	594.4
Total current assets	10,152.4	9,712.6
Property, plant and equipment, net	702.0	642.6
Intangible assets, net	10,715.8	4,067.6
Goodwill	4,742.0	2,191.2
Other assets	1,057.0	726.1
Total assets	$27,369.2	$17,340.1
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	$1,199.7	$605.9
Accounts payable	189.4	198.2
Accrued expenses	1,504.8	991.1
Income taxes payable	5.9	12.7
Current portion of deferred revenue	74.8	28.5
Other current liabilities	169.3	275.8
Total current liabilities	3,143.9	2,112.2
Deferred revenue, net of current portion	29.4	27.8
Income taxes payable	322.8	272.9
Deferred income taxes	2,632.4	555.6
Other non-current liabilities	1,567.3	1,581.1
Long-term debt, net of discount	14,297.9	6,265.7
Total liabilities	21,993.7	10,815.3
Commitments and Contingencies (Note 15)		
Stockholders' Equity:		
Preferred stock, $.01 par value per share, 5.0 million shares authorized; none outstanding at September 30, 2015 and December 31, 2014, respectively	—	—
Common stock, $.01 par value per share, 1,150.0 million shares authorized; issued 936.8 million and 924.8 million shares at September 30, 2015 and December 31, 2014, respectively	9.4	9.2
Common stock in treasury, at cost; 149.6 million and 124.6 million shares at September 30, 2015 and December 31, 2014, respectively	(13,613.4)	(10,698.8)
Additional paid-in capital	10,826.9	9,827.2
Retained earnings	7,513.4	6,472.4
Accumulated other comprehensive income	639.2	914.8

Total stockholders’ equity	5,375.5	6,524.8
Total liabilities and stockholders’ equity	$27,369.2	$17,340.1

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	Nine-Month Periods Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$1,041.0	$1,386.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	86.6	78.1
Amortization	198.5	203.3
Deferred income taxes	(413.1)	(248.6)
Impairment charges	26.6	133.2
Change in value of contingent consideration	(17.2)	11.0
Net (gain) loss on sale of investments	(84.1)	4.2
Share-based compensation expense	426.4	319.2
Share-based employee benefit plan expense	24.1	29.3
Reclassification adjustment for cash flow hedges included in net income	(249.6)	4.8
Unrealized change in value of derivative instruments	209.8	(27.8)
Other, net	17.9	(3.5)
Change in current assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	(145.8)	(46.0)
Inventory	(27.1)	(33.6)
Other operating assets	(17.6)	55.7
Accounts payable and other operating liabilities	256.2	74.3
Income tax payable	43.9	27.7
Payment of contingent consideration	—	(5.0)
Deferred revenue	49.3	11.4
Net cash provided by operating activities	1,425.8	1,973.7
Cash flows from investing activities:		
Proceeds from sales of marketable securities available for sale	3,661.7	1,662.2
Purchases of marketable securities available for sale	(1,699.4)	(2,137.0)
Payments for acquisition of businesses, net of cash acquired	(7,579.3)	(710.0)
Capital expenditures	(145.5)	(100.9)
Purchases and sales of investment securities, net	(130.8)	(58.4)
Other investing activities	(4.5)	(21.0)
Net cash used in investing activities	(5,897.8)	(1,365.1)
Cash flows from financing activities:		
Payment for treasury shares	(2,574.1)	(2,433.8)
Proceeds from short-term borrowing	2,230.9	2,436.9
Principal repayments on short-term borrowing	(1,630.8)	(2,881.9)
Proceeds from issuance of long-term debt	7,913.3	2,470.6
Proceeds from sale of common equity put options	10.2	5.8
Payment of contingent consideration	—	(15.0)
Net proceeds from share-based compensation arrangements	204.2	205.1
Excess tax benefit from share-based compensation arrangements	243.7	146.4
Net cash provided by (used in) financing activities	6,397.4	(65.9)
Effect of currency rate changes on cash and cash equivalents	(30.5)	(34.6)

Net increase (decrease) in cash and cash equivalents	1,894.9	508.1
Cash and cash equivalents at beginning of period	4,121.6	3,234.4
Cash and cash equivalents at end of period	$6,016.5	$3,742.5

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	Nine-Month Periods Ended September 30,	
	2015	2014
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	$434.6	$(196.9)
Investment in NantBioScience, Inc. preferred equity	$—	$90.0
Supplemental disclosure of cash flow information:		
Interest paid	$171.1	$126.2
Income taxes paid	$345.6	$275.0

See accompanying Notes to Unaudited Consolidated Financial Statements

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

1. Nature of Business and Basis of Presentation

Celgene Corporation, together with its subsidiaries (collectively “we,” “our,” “us,” “Celgene” or the “Company”), is an integrated global biopharmaceutical company engaged primarily in the discovery, development and commercialization of innovative therapies for the treatment of cancer and inflammatory diseases through gene and protein regulation. We are dedicated to innovative research and development designed to bring new therapies to market and we are involved in research in several scientific areas designed to deliver proprietary next-generation therapies, targeting areas including intracellular signaling pathways, protein homeostasis and epigenetics 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®, POMALYST®/IMNOVID®, VIDAZA®, azacitidine for injection (generic version of VIDAZA®), THALOMID® (sold as THALOMID® or Thalidomide Celgene™ outside of the U.S.), OTEZLA® and ISTODAX®. 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 in September 2014 for the treatment of patients with moderate to severe plaque psoriasis who are candidates for phototherapy or systemic therapy. In January 2015, OTEZLA® was approved by the European Commission (EC) for the treatment of both psoriasis and psoriatic arthritis in certain adult patients. 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 arrangements.

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

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, 2014 (2014 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 2018 using one of two prescribed transition methods. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03). ASU 2015-03 will more closely align the presentation of debt issuance costs under U.S. GAAP with the presentation under comparable IFRS standards by requiring that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, similar to the presentation of debt discounts or premiums. This accounting guidance is effective for us beginning in the first quarter of 2016. We do not expect the adoption of this updated standard to have a material impact on our consolidated financial statements and related disclosures.

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

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

In August 2015, the FASB issued Accounting Standards Update No. 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" (ASU 2015-15). ASU 2015-15 clarifies the presentation and subsequent measurement of debt issuance costs associated with lines of credit. These costs may be presented as an asset and amortized ratably over the term of the line of credit arrangement, regardless of whether there are outstanding borrowings on the arrangement. The effective date will be the first quarter of fiscal year 2017 and will be applied retrospectively. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments" (ASU 2015-16). ASU 2015-16 replaces the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively with a requirement that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 requires that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-16 will be effective is effective for us beginning in the first quarter of 2016. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance, with earlier application permitted for financial statements that have not been issued. We do not expect the adoption of this updated standard to have a material impact on our consolidated financial statements and related disclosures.

3. Acquisitions

Receptos, Inc. (Receptos): On August 27, 2015 (Acquisition Date), we acquired all of the outstanding common stock of Receptos, resulting in Receptos becoming our wholly-owned subsidiary. Receptos' lead drug candidate, ozanimod, is a small molecule that modulates sphingosine 1-phosphate 1 and 5 receptors and it is in development for immune-inflammatory indications, including inflammatory bowel disease and relapsing multiple sclerosis (RMS). In clinical trial results, ozanimod demonstrated several areas of potential advantage over existing oral therapies for the treatment of ulcerative colitis (UC) and RMS, including its cardiac, hepatotoxicity and lymphocyte recovery profile. The phase III TRUE NORTH trial in UC is currently underway with data expected in 2018. The phase III RADIANCE and SUNBEAM RMS trials are ongoing and data are expected in the first half of 2017. Receptos is also developing RPC4046, for the treatment of an allergic/immune-mediated disorder, Eosinophilic Esophagitis (EoE), which has been designated as an orphan disease. RPC4046 was licensed from AbbVie Bahamas Ltd. and AbbVie Inc. (collectively referred to as AbbVie) and is currently in phase II testing for EoE. The results of operations for Receptos are included in our consolidated financial statements from the Acquisition Date and the assets and liabilities of Receptos have been recorded at their respective fair values on the Acquisition Date and consolidated with our assets and liabilities.

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

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

The acquisition has been accounted for using the acquisition method of accounting which requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date and requires the fair value of acquired in-process research and development (IPR&D) to be classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. A preliminary purchase price allocation has been performed and the recorded amounts for intangible assets, goodwill and associated deferred tax assets and liabilities are subject to change pending finalization of valuation efforts.

The amounts recognized will be finalized as the information necessary to complete the analysis is obtained, but no later than one year after the acquisition date.

The total consideration for the acquisition of Receptos was $7,626.2 million, consisting of cash and is summarized as follows:

	Total Consideration
Cash paid for outstanding common stock	$7,311.3
Cash for equity compensation attributable to pre-combination service[1]	314.9
Total consideration	$7,626.2

[1] $28.6 million for equity compensation attributable to pre-combination service remained payable at September 30, 2015 and will be paid prior to December 31, 2015.

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:

	Amounts Recognized as of the Acquisition Date (Provisional)
Working capital [1]	$479.2
Current deferred tax assets	238.2
Property, plant and equipment	5.0
In-process research and development product rights	6,842.0
Other non-current assets	7.9
Non-current deferred tax liabilities	(2,497.0)
Total identifiable net assets	5,075.3
Goodwill	2,550.9
Total net assets acquired	$7,626.2

[1] Includes cash and cash equivalents, available for sale marketable securities, other current assets, accounts payable and other current liabilities.

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

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

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

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

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

From the Acquisition Date through September 30, 2015, our Consolidated Statements of Operations included expenses of $235.3 million associated with the acquisition and operations of Receptos as follows[1]:

Statements of Operations Location	Acquisition Date Through September 30, 2015
Research and development	$21.9
Selling, general and administrative	1.1
Acquisition related (gains) charges and restructuring, net [2]	211.7
Other income (expense), net	0.6
Total	$235.3

[1] In addition, Celgene incurred $19.9 million of acquisition related costs prior to the acquisition date.
[2] Consists of acquisition-related compensation expense and transaction costs.

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

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2015	2014	2015	2014
Total revenue	$2,334.1	$1,985.7	$6,692.7	$5,590.8
Net income	$107.3	$445.4	$1,029.8	$952.2
Net income per common share: basic	$0.14	$0.56	$1.30	$1.19
Net income per common share: diluted	$0.13	$0.53	$1.24	$1.14

The unaudited pro forma financial information was prepared using the acquisition method of accounting and was based on the historical financial information of Celgene and Receptos. The pro-forma financial information assumes that the acquisition-related transaction fees and costs incurred were removed from the three-month period ended September 30, 2015 and were assumed to have been incurred during the first quarter of 2014. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings that may result from the combined operations of Celgene and Receptos. Accordingly, these unaudited pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the combined company that would have been achieved had the acquisition occurred at the beginning of the period presented, nor are they intended to represent or be indicative of future results of operations.

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Quanticel Pharmaceuticals, Inc. (Quanticel): On October 19, 2015, we completed our previously announced acquisition of Quanticel, a privately held biotechnology company focused on cancer drug discovery, for consideration consisting of $100.0 million in cash at closing plus contingent consideration consisting of future payments of up to $385.0 million for achieving specified discovery and development targets. We have had a research collaboration arrangement with Quanticel since 2011. Through this purchase, Quanticel has become our wholly-owned subsidiary, and we will benefit from full access to Quanticel's proprietary platform for the single-cell genomic analysis of human cancer, as well as Quanticel's programs that target specific epigenetic modifiers, which we expect will advance our pipeline of innovative cancer therapies.

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

Due to the limitations on access to Quanticel information prior to the acquisition date and the limited time since the acquisition date, the initial accounting for the business combination is incomplete at this time. As a result, we are unable to provide contingent consideration disclosures and the amounts recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed, including the information required for net working capital, pre-acquisition contingencies, intangible assets and goodwill. This information will be included in our 2015 Annual Report on Form 10-K.

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. Based on our evaluation of the license agreement, our level of control and decision making authority over the development and application of the intellectual property, the associated transfer of manufacturing agreements and knowhow, and access to employees of Nogra, we concluded that the acquired assets met the definition of a business and we have accounted for the GED-0301 license as IPR&D acquired in a business combination. The assets acquired and liabilities assumed of Nogra were recorded on our balance sheet as of May 14, 2014 (Effective Date), at their respective fair values. Nogra's results of operations are included in our consolidated financial statements from the Effective Date.

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.

Subsequent to the Effective Date, we have measured the contingent consideration at fair value each period with changes in fair value recognized in operating earnings. Changes in fair values reflect new information about the IPR&D assets and the passage of time. At September 30, 2015, the balance of the contingent consideration was $1.213 billion, of which $25.0 million is included in other current liabilities and $1.188 billion included in other non-current liabilities.

4. Earnings Per Share

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
(Amounts in millions, except per share)	2015	2014	2015	2014
Net income (loss)	$(34.1)	$508.5	$1,041.0	$1,386.0
Weighted-average shares:				
Basic	791.1	799.6	794.3	803.5
Effect of dilutive securities:				
Options, restricted stock units and other incentives	—	33.2	33.4	32.9
Diluted	791.1	832.8	827.7	836.4
Net income (loss) per share:				
Basic	$(0.04)	$0.64	$1.31	$1.72
Diluted	$(0.04)	$0.61	$1.26	$1.66

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 32.5 million and 13.7 million for the three-month periods ended September 30, 2015 and 2014, respectively. The total number of potential shares of common stock excluded from the diluted earnings per share computation because their inclusion would have been anti-dilutive was 11.6 million and 17.9 million shares for the nine-month periods ended September 30, 2015 and 2014, respectively. All of the potentially dilutive securities for the three-month period ended September 30, 2015 were determined to be anti-dilutive due to the net loss reported.

Share Repurchase Program: In June 2015, 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 $17.500 billion of our common stock.

As part of the management of our share repurchase program, we may, from time to time, sell put options on our common stock with strike prices that we believe represent an attractive price to purchase our shares. If the trading price of our shares exceeds the strike price of the put option at the time the option expires, we will have economically reduced the cost of our share repurchase program by the amount of the premium we received from the sale of the put option. If the trading price of our stock is below the strike price of the put option at the time the option expires, we would purchase the shares covered by the option at the strike price of the put option. During the three-month and nine-month periods ended September 30, 2015 and 2014, we recorded losses and gains from put option activity on our Consolidated Statements of Operations in other income (expense), net as follows:

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2015	2014	2015	2014
Gain (loss) from sale of put options	$(18.8)	$3.6	$(9.9)	$9.9

At September 30, 2015, we had no outstanding put options.

We have purchased 7.1 million and 24.5 million shares of common stock under the share repurchase program from all sources at a total cost of $815.4 million and $2.849 billion during the three- and nine-month periods ended September 30, 2015, respectively. As of September 30, 2015, we had a remaining share repurchase authorization of $4.297 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, 2014	$(15.5)	$460.9	$519.6	$(50.2)	$914.8
Other comprehensive income (loss) before reclassifications	(7.6)	(297.8)	285.3	(11.9)	(32.0)
Amounts reclassified from accumulated other comprehensive income	—	7.5	(251.1)	—	(243.6)
Net current-period other comprehensive income (loss)	(7.6)	(290.3)	34.2	(11.9)	(275.6)
Balance September 30, 2015	$(23.1)	$170.6	$553.8	$(62.1)	$639.2
Balance December 31, 2013	$(6.9)	$137.3	$(36.0)	$(0.4)	$94.0
Other comprehensive income (loss) before reclassifications	—	129.6	355.1	(32.5)	452.2
Amounts reclassified from accumulated other comprehensive income	—	2.7	3.6	—	6.3
Net current-period other comprehensive income (loss)	—	132.3	358.7	(32.5)	458.5
Balance September 30, 2014	$(6.9)	$269.6	$322.7	$(32.9)	$552.5

Accumulated Other Comprehensive Income Components	Affected Line Item in the Consolidated Statements of Operations	Gains (Losses) Reclassified Out of Accumulated Other Comprehensive Income			
		Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
		2015	2014	2015	2014
Gains (losses) from cash-flow hedges:					
Foreign exchange contracts	Net product sales	$92.9	$1.3	$253.6	$(1.7)
Treasury rate lock agreements	Interest (expense)	(1.1)	(0.9)	(2.9)	(2.6)
Interest rate swap agreements	Interest (expense)	(0.4)	(0.3)	(1.1)	(0.5)
	Income tax benefit	0.5	0.5	1.5	1.2
Gains (losses) from available-for-sale marketable securities:					
		(10.9)	(1.2)	(11.6)	(4.2)

Realized income (loss) on sales of marketable securities	Interest and investment income, net				
	Income tax benefit	3.9	0.4	4.1	1.5
Total reclassification, net of tax		$84.9	$(0.2)	$243.6	$(6.3)

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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 September 30, 2015 and the valuation techniques we utilized to determine such fair value.

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Our Level 1 assets consist of marketable equity securities. Our Level 1 liability relates to our publicly traded Contingent Value Rights (CVRs). See Note 18 of Notes to Consolidated Financial Statements included in our 2014 Annual Report on Form 10-K for a description of the CVRs.
- Level 2 inputs utilize observable quoted prices for similar assets and liabilities in active markets and observable quoted prices for identical or similar assets in markets that are not very active. Our Level 2 assets consist primarily of U.S. Treasury securities, U.S. government-sponsored agency securities, U.S. government-sponsored agency 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. Our Level 2 liabilities relate to written foreign currency options, foreign currency forward contracts and interest rate swap contracts.
- Level 3 inputs utilize unobservable inputs and include valuations of assets or liabilities for which there is little, if any, market activity. We do not have any Level 3 assets. Our Level 3 liabilities consist of contingent consideration related to undeveloped product rights resulting from the acquisitions of Gloucester Pharmaceuticals, Inc. (Gloucester) and Nogra in addition to contingent consideration related to the undeveloped product rights and technology platform acquired as part of the acquisition of Avila Therapeutics, Inc. (now known as Celgene Avilomics Research, Inc.) (Avila). 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 $555.0 million, respectively, and $1.865 billion plus amounts based on sales pursuant to the license agreement with Nogra.

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

	Balance at September 30, 2015	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	$1,489.1	$1,111.3	$377.8	$—
Forward currency contracts	599.9	—	599.9	—
Purchased currency options	36.3	—	36.3	—
Interest rate swaps	89.8	—	89.8	—
Total assets	$2,215.1	$1,111.3	$1,103.8	$—
Liabilities:				
Contingent value rights	$(69.7)	$(69.7)	$—	$—
Written currency options	(18.7)	—	(18.7)	—
Other acquisition related contingent consideration	(1,328.5)	—	—	(1,328.5)
Total liabilities	$(1,416.9)	$(69.7)	$(18.7)	$(1,328.5)

	Balance at December 31, 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	$3,425.1	$1,051.3	$2,373.8	$—
Forward currency contracts	550.7	—	550.7	—
Purchased currency options	9.8	—	9.8	—
Interest rate swaps	20.0	—	20.0	—
Total assets	$4,005.6	$1,051.3	$2,954.3	$—
Liabilities:				
Contingent value rights	$(136.3)	$(136.3)	$—	$—
Written currency options	(4.6)	—	(4.6)	—
Other acquisition related contingent consideration	(1,279.0)	—	—	(1,279.0)
Total liabilities	$(1,419.9)	$(136.3)	$(4.6)	$(1,279.0)

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

There were no security transfers between Levels 1 and 2 during the nine-month periods ended September 30, 2015 and 2014. The following table represents a roll-forward of the fair value of Level 3 instruments:

	Nine-Month Periods Ended September 30,	
	2015	2014
Liabilities:		
Balance at beginning of period	$(1,279.0)	$(228.5)
Amounts acquired or issued	—	(1,060.0)
Net change in fair value	(49.5)	17.6
Settlements	—	20.0
Transfers in and/or out of Level 3	—	—
Balance at end of period	$(1,328.5)	$(1,250.9)

Level 3 liabilities outstanding as of September 30, 2015 primarily consisted of contingent consideration related to the acquisitions of Avila and Nogra. The $49.5 million net increase in the fair value of Level 3 liabilities in 2015 was related to accretion of the fair value of our contingent consideration due to the passage of time, which was partly offset by reductions in the probability and delays in the assumed timing of certain contingent consideration milestones related to the acquisition of Avila. Changes to the fair value of contingent consideration are recorded on the Consolidated Statements of Operations as acquisition related charges and restructuring, net.

7. Derivative Instruments and Hedging Activities

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

Foreign Currency Risk Management

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

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

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

We manage a portfolio of foreign currency forward contracts to protect against changes in anticipated foreign currency cash flows resulting from changes in foreign currency exchange rates, primarily associated with non-functional currency denominated revenues and expenses of foreign subsidiaries. The foreign currency forward hedging contracts outstanding at September 30, 2015 and December 31, 2014 had settlement dates within 36 months. The spot rate components of these foreign currency forward contracts are designated as cash flow hedges and, to the extent effective, any unrealized gains or losses are reported in other comprehensive income (OCI) and reclassified to operations in the same periods during which the underlying hedged transactions affect earnings. If a hedging relationship is terminated with respect to a foreign currency forward contract, accumulated gains or losses associated with the contract remain in OCI until the hedged forecasted transaction occurs and are reclassified to operations in the same periods during which the underlying hedged transactions affect earnings. Any ineffectiveness on these foreign currency forward contracts is reported on the Consolidated Statements of Operations in other income (expense), net. The forward point components of these foreign currency forward contracts are not designated as cash flow hedges and all fair value adjustments of forward point amounts are recorded to other income (expense), net. Foreign currency forward contracts entered into to hedge forecasted revenue and expenses were as follows at September 30, 2015 and December 31, 2014:

Foreign Currency	Notional Amount September 30, 2015	December 31, 2014
Australian Dollar	$38.6	$18.8
British Pound	332.6	304.8
Canadian Dollar	84.4	43.7
Euro	3,290.3	3,375.7
Japanese Yen	555.2	541.1
Total	$4,301.1	$4,284.1

We consider the impact of our own and the counterparties' credit risk on the fair value of the contracts as well as the ability of each party to execute its obligations under the contract on an ongoing basis. As of September 30, 2015, credit risk did not materially change the fair value of our foreign currency forward contracts.

We also manage a portfolio of foreign currency contracts to reduce exposures to foreign currency fluctuations of certain recognized assets and liabilities denominated in foreign currencies and, from time to time, we enter into foreign currency contracts to manage exposure related to translation of foreign earnings. These foreign currency forward contracts have not been designated as hedges and, accordingly, any changes in their fair value are recognized on the Consolidated Statements of Operations in other income (expense), net in the current period. The aggregate notional amount of the foreign currency forward non-designated hedging contracts outstanding at September 30, 2015 and December 31, 2014 were $831.8 million and $835.5 million, respectively.

Foreign Currency Option Contracts: From time to time, we may hedge a portion of our future foreign currency exposure by utilizing a strategy that involves both a purchased local currency put option and a written local currency call option that are accounted for as hedges of future sales denominated in that local currency. Specifically, we sell (or write) a local currency call option and purchase a local currency put option with the same expiration dates and local currency notional amounts but with different strike prices. This combination of transactions is generally referred to as a "collar." The expiration dates and notional amounts correspond to the amount and timing of forecasted foreign currency sales. If the U.S. dollar weakens relative to the currency of the hedged anticipated sales, the purchased put option value reduces to zero and we benefit from the increase in the U.S. dollar equivalent value of our anticipated foreign currency cash flows; however, this benefit would be capped at the strike level of the written call, which forms the upper end of the collar. The premium collected from the sale of the call option is equal to the premium paid for the purchased put option, resulting in a net zero cost for each collar. Outstanding foreign currency option contracts entered into to hedge forecasted revenue were as follows at September 30, 2015 and December 31, 2014:

	Notional Amount[1] September 30, 2015	December 31, 2014