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CELGENE CORP /DE/  
Form 10-K  
February 27, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2006

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 No. 0-16132

CELGENE CORPORATION

-----  
(Exact name of registrant as specified in its charter)

DELAWARE

22-2711928

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

-----  
(I.R.S. Employer Identification)

86 MORRIS AVENUE  
SUMMIT, NEW JERSEY

07901

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(908) 673-9000

-----  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, PAR VALUE \$.01 PER SHARE

-----  
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer,  
as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports  
pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

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subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer or a non-accelerated filer (as defined in 12b-2 of the Act).

Large accelerated  Accelerated  Non-accelerated

Indicate by check mark whether the registrant is a shell company (as defined in 12b-2 of the Act).

Yes  No

The aggregate market value of voting stock held by non-affiliates of the registrant on June 30, 2006, the last business day of the registrant's most recently completed second quarter, was \$16,617,642,008 based on the last reported sale price of the registrant's Common Stock on the NASDAQ Global Select Market on that date. There were 377,552,772 shares of Common Stock outstanding as of February 22, 2006.

### DOCUMENTS INCORPORATED BY REFERENCE

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The registrant intends to file a definitive proxy statement pursuant to Regulation 14A within 120 days of the end of the fiscal year ended December 31, 2006. The proxy statement is incorporated herein by reference into the following parts of the Form 10K:

Part III, Item 10, Directors, Executive Officers and Corporate Governance;  
Part III, Item 11, Executive Compensation;  
Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters;  
Part III, Item 13, Certain Relationships and Related Transactions, and Director Independence;  
Part III, Item 14, Principal Accountant Fees and Services.

### CELGENE CORPORATION ANNUAL REPORT ON FORM 10-K

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## PART I

### ITEM 1. BUSINESS

We are a global biopharmaceutical company primarily engaged in the discovery, development and commercialization of innovative therapies designed to treat cancer and immune-inflammatory related diseases. Our lead products are: REVLIMID(R) (lenalidomide), which was approved by the U.S. Food and Drug Administration, or FDA, in June 2006 for treatment in combination with dexamethasone for multiple myeloma patients who have received at least one prior therapy and, in December 2005 for treatment of patients with 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; and, THALOMID(R) (thalidomide), which gained FDA approval in May 2006 for treatment in combination with dexamethasone of newly diagnosed multiple myeloma patients and which is also approved for the treatment and suppression of cutaneous manifestations of erythema nodosum leprosum, or ENL, an inflammatory complication of leprosy. The sales growth of REVLIMID(R) and THALOMID(R) has enabled us to make substantial investments and advancements in our product pipeline as well as in our commercial capabilities. Our broad portfolio of drug candidates in our product pipeline includes IMiDs(R) compounds, which are proprietary to us and have demonstrated certain immunomodulatory and other biologically important properties. We believe that the commercial potential of REVLIMID(R) and THALOMID(R), the depth of our product pipeline, near-term regulatory activities, geographic/international market expansion and clinical data reported both at major medical conferences and in peer-reviewed publications provide the catalysts for continued growth.

We are dedicated to innovative research and development designed to bring new

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therapies to market. We are involved in research in several scientific areas that may deliver proprietary next-generation therapies, such as intracellular signaling, immunomodulation and placental stem cell research. The therapies (drugs and cell therapies) we develop are designed to treat life-threatening diseases or chronic debilitating conditions where patients are poorly served by current therapies. Building on our growing knowledge of the biology underlying hematological and solid tumor cancers and immune-inflammatory diseases, we are investing in a range of innovative therapeutic programs that are investigating ways to treat chronically managed diseases by targeting the disease source through multiple mechanisms of action.

For the year ended December 31, 2006, we had total revenues and net income of \$898.9 million and \$69.0 million, respectively. At December 31, 2006, we had an accumulated deficit of \$101.8 million.

### ACQUISITIONS

In December 2002, we acquired Anthrogenesis Corp., d/b/a Celgene Cellular Therapeutics, a privately held New Jersey-based biotherapeutics company and cord blood banking business, which is developing the technology for the recovery of stem cells from human placental tissues following the completion of full-term, successful pregnancies. Celgene Cellular Therapeutics, or CCT, now operates as a wholly owned subsidiary of Celgene Corporation.

In October 2004, we acquired all of the outstanding shares of Penn T Limited, the UK-based global supplier of THALOMID(R). This acquisition expanded our corporate capabilities and enabled us to control manufacturing for THALOMID(R) worldwide. Through manufacturing contracts acquired in this purchase, we also increased our participation in the potential growth of THALOMID(R) revenues in key international markets.

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In December 2006, we purchased an active pharmaceutical ingredient, or API, manufacturing facility from Siegfried Ltd. and Siegfried Dienste AG (together "Siegfried") located in Zofingen, Switzerland. The manufacturing facility has the capability to produce multiple drug substances and initially will be used to produce REVLIMID(R) API to supply global markets. The facility may also be used to produce drug substance for our future drugs and drug candidates. This asset acquisition expands our manufacturing capabilities and furthers our objective to strategically control the production of REVLIMID(R) worldwide.

### COMMERCIAL STAGE PROGRAMS

Our commercial programs include pharmaceutical product sales of REVLIMID(R), THALOMID(R), ALKERAN(R) and sales of FOCALIN(TM) to Novartis Pharma AG, or Novartis; a licensing agreement with Novartis which entitles us to royalties on FOCALIN XR(TM) and the entire RITALIN(R) family of drugs; a licensing and product supply agreement with Pharmion Corporation for its sales of thalidomide; and sales of bio-therapeutic products and services through our Cellular Therapeutics subsidiary.

REVLIMID(R) (LENALIDOMIDE): REVLIMID(R) is an oral immunomodulatory drug approved by the FDA for treatment in combination with dexamethasone for multiple myeloma patients who have received at least one prior therapy. Multiple myeloma is the second most common blood cancer in the United States affecting approximately 50,000 people. About 14,600 new cases of multiple myeloma are diagnosed each year and about 12,000 Americans are expected to die each year of multiple myeloma. REVLIMID(R) is also approved for treatment of patients with transfusion-dependent anemia due to low- or intermediate-1-risk MDS, associated

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with a deletion 5q cytogenetic abnormality with or without additional cytogenetic abnormalities. REVLIMID(R) is distributed primarily through contracted pharmacies under the RevAssist(R) program, which is a proprietary risk-management distribution program tailored specifically to help ensure to the maximum extent possible the safe use of REVLIMID(R).

REVLIMID(R) continues to be evaluated in clinical trials as a potential treatment for hematological cancers that affect more than 1,000,000 patients worldwide. There are more than 75 clinical trials currently evaluating REVLIMID(R) either alone or in combination with one or more other therapies in the treatment of a broad range of debilitating diseases, including multiple myeloma, MDS, chronic lymphocytic leukemia, or CLL, non-Hodgkin's lymphoma, or NHL, other hematological and solid tumor cancers and other inflammatory and immunological diseases. The most advanced of these studies include Phase III and Phase II trials evaluating REVLIMID(R) across a broad range of hematological cancers, including multiple myeloma, MDS, CLL and NHL.

Current efforts directed towards gaining additional regulatory approvals of REVLIMID(R) include our Marketing Authorization Application, or MAA, currently under review by the European Medicines Agency, or EMEA, submitted in February 2006 for treatment of patients with relapsed or refractory multiple myeloma and in October 2005 for the treatment of patients with low- to intermediate-1-risk MDS associated with a deletion 5q cytogenetic abnormality with or without additional abnormalities. REVLIMID(R) has been designated as an Orphan Medicinal Product in the European Union, or EU, for the treatment of multiple myeloma and MDS. Also, REVLIMID received orphan drug designation from the FDA for the treatment of CLL. REVLIMID(R) is currently being made available to patients in the EU under a Named Patient Program, or NPP, which is a compassionate use program where specially trained doctors can prescribe REVLIMID(R) to patients suffering from either of the two indications accepted by the EMEA for review.

THALOMID(R) (THALIDOMIDE): THALOMID(R) was approved by the FDA in May 2006 in combination with dexamethasone for the treatment of newly diagnosed multiple myeloma. THALOMID(R) had been previously approved, since July 1998, for the acute treatment of cutaneous manifestations of moderate to severe ENL and as maintenance therapy for prevention and suppression of the cutaneous manifestation of

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ENL recurrence. ENL is an inflammatory complication of leprosy and although leprosy is relatively rare in the United States, the disease afflicts millions worldwide. ENL occurs in about 30% of leprosy patients and is characterized by skin lesions, acute inflammation, fever and anorexia.

We developed S.T.E.P.S.(R), or "SYSTEM FOR THALIDOMIDE EDUCATION AND PRESCRIBING SAFETY," which is a proprietary strategic comprehensive education and risk-management distribution program with the objective of providing for the safe and appropriate distribution and use of THALOMID(R). Among other things, S.T.E.P.S.(R) requires prescribers, patients and dispensing pharmacies to participate in a registry and an order cannot be filled unless the physician, patient and pharmacy have been registered, trained and meet all qualification criteria. Through the use of our S.T.E.P.S. program, more than 150,000 U.S. patients have accessed the clinical benefit of THALOMID(R) since its market introduction in September 1998.

ALKERAN(R): In March 2003, we entered into a supply and distribution agreement with GlaxoSmithKline, or GSK, to distribute, promote and sell ALKERAN(R) (melphalan) in all dosage forms in the United States under the Celgene label. ALKERAN(R) is approved by the FDA for the palliative treatment of multiple

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myeloma and of carcinoma of the ovary. ALKERAN(R) use in combination with other therapies for the treatment of hematological diseases continues to grow, driven by clinical data reported at major medical conferences around the world. Under the terms of the agreement, we purchase ALKERAN(R) tablets and ALKERAN(R) for injection from GSK and distribute the products in the United States under the Celgene label. The agreement requires us to purchase certain minimum quantities of ALKERAN(R) each year under a take-or-pay arrangement. The agreement has been extended through March 31, 2009.

RITALIN(R) FAMILY OF DRUGS: In April 2000, we licensed to Novartis the worldwide rights (excluding Canada) to FOCALIN(TM) and FOCALIN XR(TM), the extended release version, in exchange for milestone payments, a product supply agreement under which we sell FOCALIN(TM) exclusively to Novartis and royalties on FOCALIN XR(TM) and the entire RITALIN(R) family of drugs. We have retained the exclusive commercial rights to FOCALIN(TM) and FOCALIN XR(TM) for oncology-related disorders. FOCALIN(TM) was approved by the FDA in November 2001 for the treatment of attention deficit hyperactivity disorder, or ADHD, in children and adolescents and FOCALIN XR(TM) was later approved by the FDA in May 2005 for the treatment of ADHD in adults, adolescents and children.

We developed FOCALIN(TM), which is formulated by isolating the active d-isomer of methylphenidate using advanced single-isomer chemistry technology (isomers are any of two or more chemical substances that are composed of the same elements in the same proportions but can differ in properties because of differences in the arrangement of atoms). FOCALIN(TM), which provides favorable tolerability and dosing flexibility at half the dose of RITALIN(R), contains only the more active isomer responsible for the effective management of the symptoms of ADHD.

### PRECLINICAL- AND CLINICAL-STAGE PIPELINE:

Our preclinical- and clinical-stage pipeline of new drug candidates, in addition to our cell therapies, is highlighted by multiple classes of small molecule, orally administered therapeutic agents designed to selectively regulate disease-associated genes and proteins. The drug candidates in our pipeline are at various stages of preclinical and clinical development. Successful results in preclinical or Phase I/II clinical studies may not be an accurate predictor of the ultimate safety or effectiveness of a drug candidate.

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#### o PHASE I CLINICAL TRIALS

If the FDA allows a request to initiate clinical investigations of a new drug candidate to become effective, Phase I human clinical trials can begin. These tests usually involve between 20 and 80 healthy volunteers or patients. The tests study a drug's safety profile, and may include preliminary determination of a drug candidate's safe dosage range. The Phase I clinical studies also determine how a drug is absorbed, distributed, metabolized and excreted by the body, and the duration of its action.

#### o PHASE II CLINICAL TRIALS

In Phase II clinical trials, studies are conducted on a limited number of patients with the targeted disease. An initial evaluation of the drug's effectiveness on patients is performed and additional information on the drug's safety and dosage range is obtained.

#### o PHASE III CLINICAL TRIALS

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This phase typically includes controlled multi-center trials and involves a larger target patient population to ensure that study results are statistically significant. During the Phase III clinical trials, physicians monitor patients to determine efficacy and to gather further information on safety.

IMiDS(R): IMiDs(R) compounds are proprietary novel small molecule, orally available compounds that modulate the immune system and other biologically important targets through multiple mechanisms of action. We have marketed REVLIMID(R) (CC-5013) and have advanced two other IMiDs(R) compounds into clinical development, CC-4047 and CC-11006. Additional compounds, including CC-10015, are in preclinical development.

Our IMiDs(R) compounds are covered by an extensive and comprehensive intellectual property estate of U.S. and foreign-issued patents and pending patent applications including composition-of-matter, use and other patents and patent applications.

CC-4047: is one of the most potent IMiDs(R) compounds that we are developing. We are evaluating Phase II trials to determine CC-4047's potential efficacy as an oral therapy for a range of oncology and potentially non-oncology uses, including myelofibrosis, multiple myeloma and solid tumor cancers. CC-4047 and REVLIMID(R) have different activity profiles, leading us to evaluate CC-4047 in additional indications.

CC-11006: is another molecule with activities distinct from those of REVLIMID(R) and CC-4047. Following successful completion of Phase I human clinical trials, we are currently evaluating conditions where this profile will have best therapeutic application including MDS.

ORAL ANTI-INFLAMMATORY AGENTS: Our anti-inflammatory program is focused on providing an oral approach for treating chronic inflammatory diseases. CC-10004, our lead investigational drug in this class, is an orally available small molecule that inhibits PDE-4, resulting in the inhibition of multiple pro-inflammatory mediators, including TNF-(alpha). Early stage studies in healthy human volunteers found CC-10004 to be safe and well-tolerated with good bioavailability and pharmacokinetics. Based upon promising results from a pilot study in psoriasis, CC-10004 is currently under evaluation in Phase II proof-of-principle clinical trials for psoriasis and psoriatic arthritis to position this candidate for subsequent trials in a number of chronic inflammatory diseases.

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ANTI-PROLIFERATIVES: CC-8490 has completed Phase I clinical trials in glioblastoma, an aggressive form of brain cancer, and is positioned for potential subsequent studies. A follow-on compound in the same class, CC-0227113, which has broad anti-tumor activity, is at the preclinical stage of development.

KINASE INHIBITORS: Celgene Research San Diego has generated valuable intellectual property in the identification of kinases that regulate pathways critical in inflammation and oncology. The Celgene kinase inhibitor platform includes inhibitors of the c-Jun N-terminal kinase, or JNK, pathway, and inhibitors of the NFkB pathway. The JNK inhibitor, CC-401, has successfully completed a Phase I trial in healthy volunteers and in acute myelogenous leukemia, or AML, patients to determine safety and tolerability. Our next JNK inhibitor, CC-930, is in pre-clinical development, advancing toward clinical testing.

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**LIGASE INHIBITORS:** Celgene Research San Diego has played an early role in defining the ligases that regulate the degradation of intracellular proteins. These ligases, as a class of targets, have broad potential for drug discovery in oncology. By identifying drug targets and compounds that regulate ligase pathways, we are addressing the potential to develop an important new class of anti-cancer and anti-inflammatory therapeutics.

**PLEIOTROPIC PATHWAY MODIFIERS:** Based upon observations Celgene has made about the effect of therapeutics to modify multiple intracellular signaling pathways in distinct cell types, we have identified a new class of molecules that impact activity of several key pathways of therapeutic relevance. The first of these, CC-16057, has moved into preclinical development for inflammatory conditions.

**STEM CELLS:** At Celgene Cellular Therapeutics we are researching stem cells derived from the human placenta as well as from the umbilical cord. CCT is our state-of-the-art research and development division dedicated to fulfilling the promise of cellular technologies by developing cutting-edge products and therapies that will significantly benefit patients. Our goal is to develop proprietary cell therapy products for the treatment of autoimmune diseases and cancer.

Stem cell based therapies offer the potential to provide disease-modifying outcomes for serious diseases which today lack adequate therapy. We have developed proprietary technology for collecting, processing, and storing placental stem cells with potentially broad therapeutic applications in cancer, autoimmune, cardiovascular, neurological and other diseases. Our studies of the placenta indicate that it is a rich source of potential products with biological activity and therapeutic promise.

In December 2006, CCT submitted an IND for our human placental derived stem cell, or HPDSC, product. The initial study will be conducted in patients with certain malignant hematological diseases and other non-malignant disorders. We also maintain an IND with the FDA for a trial with cord blood in sickle cell anemia. Additional pre-clinical research to define further the potential of placental derived stem cells, most specifically our first placental derived adherent cell product PDA-001, and to characterize other placental-derived products is continuing.

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### CELGENE PRODUCT OVERVIEW

The U.S. commercial status of REVLIMID(R), THALOMID(R), ALKERAN(R), Ritalin(R) / FOCALIN(TM) and the target disease indications and the development of our leading drug candidates are outlined in the following table:

| PRODUCT      | DISEASE INDICATION         | COLLABORATOR    |                  |
|--------------|----------------------------|-----------------|------------------|
| THALOMID (R) | ENL                        |                 | Market           |
|              | Multiple Myeloma           |                 | Market<br>multip |
| ALKERAN (R)  | Multiple Myeloma & Ovarian | GlaxoSmithKline | Market           |



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Cancer

| -----                      |   |   |               |
|----------------------------|---|---|---------------|
| RITALIN (R) / FOCALIN (TM) |   |   |               |
| Focalin (TM)               | ADHD                                    | Novartis  | Market        |
| Focalin XR (TM)            | ADHD in patients aged 6 years and older | Novartis  | Market        |
| Ritalin LA (R)             | ADHD                                    | Novartis  | Market        |
| -----                      |   |   |               |
| IMIDS (R) COMPOUNDS:       |   |   |               |
| REVLIMID (R)               | Multiple Myeloma                        |   | Market multip |
|                            | Multiple Myeloma                        |   | Newly trials  |
|                            | Multiple Myeloma                        | Southwest Oncology Group ("SWOG")                   | Phase         |
|                            | Multiple Myeloma                        | Eastern Cooperative Oncology Group ("ECOG") - E4A03 | Phase         |
|                            | Myelodysplastic Syndromes               |   | Market        |
|                            | Myelodysplastic Syndromes               |   | Phase on-goi  |
|                            | Myelodysplastic Syndromes               |   | Phase comple  |

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| -----        |                                    |              |                     |
|--------------|------------------------------------|--------------|---------------------|
| PRODUCT      | DISEASE INDICATION                 | COLLABORATOR |                     |
| -----        |                                    |              |                     |
| REVLIMID (R) | Chronic Lymphocytic Leukemia (CLL) |              | Phase III SP        |
|              | Non-Hodgkins Lymphoma (NHL)        |              | Phase III SP        |
|              | Solid Tumor Cancers                |              | Phase expand planne |
| CC-4047      | Solid Tumor Cancers                |              | Phase               |
|              | Myelofibrosis                      |              | Phase               |
|              | Hemoglobinopathies                 |              | Phase               |

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|                         |                                  |        |
|-------------------------|----------------------------------|--------|
|                         | Multiple Myeloma                 | Phase  |
| CC-11006                | Hematological Malignances        | Phase  |
| CC-10015                | Inflammatory Diseases            | Pre-cl |
| CC-13097                | Inflammatory Diseases            | Pre-cl |
| CC-15965                | Inflammatory Diseases            | Pre-cl |
| -----                   |                                  |        |
| ORAL ANTI-INFLAMMATORY: |                                  |        |
| CC-10004                | Psoriasis                        | Phase  |
|                         | Psoriatic Arthritis              | Phase  |
| CC-11050                | Inflammatory Diseases            | Phase  |
| -----                   |                                  |        |
| ANTI-PROLIFERATIVES:    |                                  |        |
| CC-8490                 | Cancer                           | Phase  |
| CC-0227113              | Cancer                           | Precli |
| -----                   |                                  |        |
| KINASE INHIBITORS:      |                                  |        |
| JNK 401                 | Acute Myelogenous Leukemia (AML) | Phase  |
| JNK 930                 | Fibrotic Diseases                | Precli |

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| PRODUCT                         | DISEASE INDICATION      | COLLABORATOR |
|---------------------------------|-------------------------|--------------|
| -----                           |                         |              |
| LIGASE INHIBITORS:              |                         |              |
| Ligase Inhibitors               | Cancer                  | Precli       |
| -----                           |                         |              |
| STEM CELL:                      |                         |              |
| Lifebank USA(TM)                | Stem Cell Banking       | Market       |
| BIOVANCE(TM) and Acelagraft(TM) | Wound Covering          | Market       |
| HPDSC: Transplants              | Hematological Disorders | Phase        |
| PDA-001                         | Autoimmune/Cancer       | Precli       |
| -----                           |                         |              |

Two REVLIMID(R) Marketing Authorization Applications, or MAAs, are being

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evaluated by the European Medicines Agency, or EMEA. One seeks approval to market REVLIMID(R) for the treatment of previously treated multiple myeloma patients and the other for the treatment of transfusion dependent anemia in patients who have MDS with the 5q chromosomal deletion. Swissmedic, the Swiss Agency for Therapeutic Products, also is evaluating two REVLIMID(R) MAAs for the treatment of previously treated multiple myeloma patients and for the treatment of transfusion dependent anemia in patients who have MDS with the 5q chromosomal deletion, respectively. Additionally, the Therapeutic Goods Administration in Australia is evaluating an MAA for the treatment of previously treated multiple myeloma patients.

### PATENTS AND PROPRIETARY TECHNOLOGY

Patents and other proprietary rights are important to our business. It is our policy to seek patent protection for our inventions, and also to rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position.

We own or have exclusively licensed at least 134 issued U.S. patents and at least 211 additional U.S. patent applications are pending. While we have a policy to seek worldwide patent protection for our inventions, we have foreign patent rights corresponding to most but not all of our U.S. patents. Further, although THALOMID(R) is approved for use associated with ENL, we do not have patent protection relating to the use of THALOMID(R) to treat ENL.

In August 2001, we entered into an agreement, termed the "New Thalidomide Agreement," with EntreMed, Inc., Children's Medical Center Corporation, or CMCC, and Bioventure Investments, KFT relating to patents and patent applications owned by CMCC, which agreement superceded several agreements already in place between CMCC, EntreMed and us. Pursuant to the New Thalidomide Agreement, CMCC directly granted to us an exclusive worldwide, royalty-bearing license under the relevant patents and patent applications relating to thalidomide. Several U.S. patents have been issued to CMCC in this patent family and certain of these patents expire in 2013 and 2014. Corresponding foreign patent applications and additional U.S. patent applications are still pending.

In addition to the New Thalidomide Agreement, we entered into an agreement, entitled the "New Analog Agreement," with CMCC and EntreMed in December 2002, pursuant to which we have been granted an exclusive worldwide, royalty-bearing license to certain CMCC patents and patent applications relating to thalidomide analogs. The New Analog Agreement was executed in connection with the settlement of certain pending litigation by and among us, EntreMed and the U.S. Patent and Trademark Office relating to the allowance of certain CMCC patent applications covering thalidomide analogs. These patent

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applications had been licensed exclusively to EntreMed in the field of thalidomide analogs. In conjunction with the settlement of these suits, we acquired equity securities in EntreMed, and EntreMed terminated its license agreements with CMCC relating to thalidomide analogs. In turn, under the New Analog Agreement, CMCC exclusively licensed to Celgene these patents and patent applications, which relate to analogs, metabolites, precursors and hydrolysis products of thalidomide, and stereoisomers thereof. Under the New Analog Agreement, we are obligated to comply with certain milestones and royalties, including those for REVLIMID(R) approval and sales.

The New Analog Agreement grants us control over the prosecution and maintenance of the licensed thalidomide analog patent rights. The New Analog Agreement also grants us an option to inventions in the field of thalidomide analogs that may

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be developed at CMCC in the laboratory of Dr. Robert D'Amato, pursuant to the terms and conditions of a separate Sponsored Research Agreement negotiated between CMCC and us.

Under an agreement with The Rockefeller University, pursuant to which we have made a lump sum payment and issued stock options to The Rockefeller University and certain inventors, we have obtained certain exclusive rights and licenses to manufacture, have manufactured, use, offer for sale and sell products that are based on compounds which were identified in research carried out by The Rockefeller University and us that have activity associated with TNF(alpha). In particular, The Rockefeller University identified a method of using thalidomide and certain thalidomide-like compounds to treat certain symptoms associated with abnormal concentrations of TNF(alpha), including those manifested in septic shock, cachexia and HIV infection. In 1995, The Rockefeller University was issued a U.S. patent which claims such methods. This U.S. patent expires in 2012 and is included in the patent rights exclusively licensed to us under the agreement with The Rockefeller University. The Rockefeller University did not seek corresponding patents in any other country.

Our research at Celgene Research San Diego has led us to seek patent protection for molecular targets and drug discovery technologies, as well as therapeutic and diagnostic products and processes. More specifically, proprietary technology has been developed for use in molecular target discovery, the identification of regulatory pathways in cells, assay design and the discovery and development of pharmaceutical product candidates. As of December 2006, included in those inventions described above, our San Diego subsidiary owned, in whole or in part, 40 issued U.S. patents and approximately 45 U.S. patent applications. An increasing percentage of our San Diego subsidiary's recent patent applications have been related to potential product candidates or compounds. It also holds licenses to U.S. patents and U.S. patent applications, some of which are licensed exclusively or sub-licensed to third parties in connection with sponsored or collaborative research relationships.

CCT, our cellular therapeutics subsidiary, seeks patent protection for the collection, processing and uses of mammalian placental and umbilical cord tissue and placental and umbilical cord stem cells, as well as cells and biomaterials derived from the placenta. As of December 2006, CCT owned, in whole or in part, two U.S. patents, and more than 38 U.S. patent applications, including pending provisional applications, and holds licenses to U.S. patents and U.S. patent applications, including certain patents and patent applications related to cord blood collection and storage.

Our success will depend, in part, on our ability to obtain and enforce patents, protect trade secrets, obtain licenses to technology owned by third parties where it is necessary to conduct our business without infringing the proprietary rights of others. The patent positions of pharmaceutical and biotechnology firms, including ours, can be uncertain and involve complex legal and factual questions. 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 will result in the issuance of patents or, if any patents are issued, whether they will be dominated by third-

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party patent rights, whether they will provide significant proprietary protection or commercial advantage or whether they will be circumvented, opposed or infringed upon by others.

Consequently, we do not know whether any of our owned or licensed pending patent

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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 or infringed by others. Finally, we cannot 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 U.S. Patent and Trademark Office.

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, either with respect to thalidomide or thalidomide analogs, 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 the licenses granted to Celgene by CMCC could have a material adverse effect on our business, financial condition and results of operations.

Since patent applications filed in the United States on or before November 28, 2000 are maintained in secrecy until patents issue, and since 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 U.S. Patent and Trademark Office 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.

We are aware of U.S. patents that have been issued to third parties claiming subject matter relating to the NF[KAPPA]B pathway, including U.S. patents which could overlap with technology claimed in some of our owned or licensed NF[KAPPA]B patents or patent applications, and a U.S. patent that has been asserted against certain pharmaceutical companies. With respect to those patents that overlap with our applications, we believe that one or more interference proceedings may be initiated by the U.S. Patent and Trademark Office to determine priority of invention for this subject matter. While we cannot predict the outcome of any such proceedings, in the event we do not prevail, we believe that we can use alternative methods for our NF[KAPPA]B drug discovery program for which we have issued U.S. patents that are not claimed by the subject matter of the third-party patents. We are also aware of third-party U.S. patents that relate to the use of certain TNF $\alpha$  inhibitors to treat inflammation or conditions such as asthma.

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 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

could cause us to lose exclusivity relating to

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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, 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 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 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.

#### GOVERNMENTAL REGULATION

Regulation by governmental authorities in the United States and other countries is a significant factor in the manufacture and marketing of pharmaceuticals and in our ongoing research and development activities. Most, if not all, of our therapeutic products require regulatory approval by governmental agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous preclinical testing and clinical trials and other pre-marketing approval requirements by the FDA and regulatory authorities in other countries. In the United States, various federal and in some cases state statutes and regulations also govern or impact upon the manufacturing, testing for safety and effectiveness, labeling, storage, record-keeping and marketing of such products. The lengthy process of seeking required approvals, and the continuing need for compliance with applicable statutes and regulations, require the expenditure of substantial resources. Regulatory approval, when and if obtained, may be limited in scope which may significantly limit the indicated uses for which a product may be marketed. Further, approved drugs, as well as their manufacturers, are subject to ongoing review and discovery of previously unknown problems with such products or the manufacturing or quality control procedures used in their production may result in restrictions on their manufacture, sale or use or in

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their withdrawal from the market. Any failure by us, our suppliers of manufactured drug product, collaborators or licensees to obtain or maintain, or any delay in obtaining, regulatory approvals could adversely affect the marketing of our products and our ability to receive product revenue, license revenue or profit sharing payments.

The activities required before a pharmaceutical may be marketed in the United States begin with preclinical testing not involving human subjects. Preclinical tests include laboratory evaluation of a product candidate's chemistry and its biological activities and the conduct of animal studies to assess the

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potential safety and efficacy of a product candidate and its formulations. The results of these studies must be submitted to the FDA as part of an investigational new drug application, or IND, which must be reviewed by the FDA primarily for safety considerations before proposed clinical trials in humans can begin.

Typically, clinical trials involve a three-phase process. In Phase I, clinical trials are generally conducted with a small number of individuals, usually healthy human volunteers, to determine the early safety and tolerability profile and the pattern of drug distribution and metabolism within the body. If the Phase I trials are satisfactory, Phase II clinical trials are conducted with groups of patients in order to determine preliminary efficacy, dosing regimes and expanded evidence of safety. In Phase III, large-scale, multi-center, adequately enrolled and typically controlled comparative clinical trials are conducted with patients in an effort to provide enough data for the statistical proof of efficacy and safety required by the FDA and others for marketing approval. In some limited circumstances, Phase III clinical trials may be modified to allow the evaluation of safety and efficacy based upon (i) comparisons with approved drugs, (ii) comparison with the historical progression of the disease in untreated patients, or (iii) the use of surrogate markers, together with a commitment for post-approval studies. In some cases, as a condition for New Drug Application, or NDA, approval, further studies (Phase IV) are required to provide additional information concerning the drug. The FDA requires monitoring of all aspects of clinical trials, and reports of all adverse events must be made to the agency before drug approval. After drug approval, we have ongoing reporting obligations concerning adverse reactions associated with the drug, including expedited reports for serious and unexpected adverse events. Additionally, we may have limited control over studies conducted with our proprietary compounds if such studies are performed by others (e.g., cooperative groups and the like).

The results of the preclinical testing and clinical trials are submitted to the FDA as part of an NDA for evaluation to determine if the product is sufficiently safe and effective for approval to commence commercial sales. In responding to an NDA, the FDA may grant marketing approval, request additional information or deny the application if it determines that the application does not satisfy its regulatory approval criteria. When an NDA is approved, the NDA holder must a) employ a system for obtaining reports of experience and side effects associated with the drug and make appropriate submissions to the FDA and b) timely advise the FDA if any marketed drug fails to adhere to specifications established by the NDA internal manufacturing procedures.

Pursuant to the Orphan Drug Act, a sponsor may request that the FDA designate a drug intended to treat a "rare disease or condition" as an "orphan drug." A rare disease or condition is defined as one which affects less than 200,000 people in the United States, or which affects more than 200,000 people, but for which the cost of developing and making available the drug is not expected to be recovered

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from sales of the drug in the United States. Upon the approval of the first NDA for a drug designated as an orphan drug for a specified indication, the sponsor of that NDA is entitled to exclusive marketing rights in the United States for such drug for that indication for seven years unless the sponsor cannot assure the availability of sufficient quantities of the drug to meet the needs of persons with the disease. However, orphan drug status is particular to the approved indication and does not prevent another company, such as a generic competitor, from seeking approval of other labeled indications. The period of orphan drug exclusivity is concurrent with any patent exclusivity that relates to the drug. Orphan drugs may also be eligible for federal income tax credits for costs associated with the drug's development. Possible amendment of the Orphan Drug Act by the U.S. Congress and possible reinterpretation by the FDA has been discussed by regulators and legislators. FDA regulations reflecting certain definitions, limitations and procedures for orphan drugs initially went into effect in January 1993 and were amended in certain respects in 1998. Therefore, there is no assurance as to the precise scope of protection that may be afforded by orphan drug status in the future or that the current level of exclusivity and tax credits will remain in effect. Moreover, even if we have an orphan drug designation for a particular use of a drug, there can be no assurance that another company also holding orphan drug designation will not receive approval prior to us for the same

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indication. If that were to happen, our applications for that indication could not be approved until the competing company's seven-year period of exclusivity expired. Even if we are the first to obtain approval for the orphan drug indication, there are certain circumstances under which a competing product may be approved for the same indication during our seven-year period of exclusivity. First, particularly in the case of large molecule drugs, a question can be raised whether the competing product is really the "same drug" as that which was approved. In addition, even in cases in which two products appear to be the same drug, the agency may approve the second product based on a showing of clinical superiority compared to the first product.

Among the conditions for NDA approval is the requirement that the prospective manufacturer's quality control and manufacturing procedures continually conform with the FDA's current Good Manufacturing Practice, cGMP, regulations (which are regulations established by the FDA governing the manufacture, processing, packing, storage and testing of drugs intended for human use). In complying with cGMP, manufacturers must devote extensive time, money and effort in the area of production and quality control and quality assurance to maintain full technical compliance. Manufacturing facilities and company records are subject to periodic inspections by the FDA to ensure compliance. If a manufacturing facility is not in substantial compliance with these requirements, regulatory enforcement action may be taken by the FDA, which may include seeking an injunction against shipment of products from the facility and recall of products previously shipped from the facility.

Under the Hatch-Waxman Amendments to the Federal Food, Drug, and Cosmetic Act, products covered by approved NDAs or Supplemental NDAs may be protected by periods of patent and/or non-patent exclusivity. During the exclusivity periods, the FDA is generally prevented from granting effective approval of an Abbreviated NDA, or ANDA, or 505(b)(2) application which refers to a product protected by an effective and unexpired exclusivity. ANDAs and 505(b)(2) applications are generally less burdensome than full NDAs in that, in lieu of new clinical data, the applications rely in whole, or in part, upon the safety and efficacy findings of the referenced approved drug in conjunction with bridging data, typically bioequivalence data. Upon the expiration of the applicable exclusivities, through passage of time or successful legal challenge,



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the FDA may grant effective approval of an ANDA or 505(b)(2) which refers to the product previously protected by the exclusivity provisions. 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.

Failure to comply with applicable FDA regulatory requirements can result in enforcement actions such as warning letters, recalls or adverse publicity issued by the FDA or in legal actions such as seizures, injunctions, fines based on the equitable remedy of disgorgement, restitution and criminal prosecution.

Approval procedures similar to those in the United States must be undertaken in virtually every other country comprising the market for our products before any such product can be commercialized in those countries. The approval procedure and the time required for approval vary from country to country and may involve additional testing. There can be no assurance that approvals will be granted on a timely basis or at all. In addition, regulatory approval of drug pricing is required in most countries other than the United States. There can be no assurance that the resulting pricing of our drugs would be sufficient to generate an acceptable return to us.

### COMPETITION

The pharmaceutical and biotechnology industries in which we compete are each highly competitive. Our competitors include major pharmaceutical and biotechnology companies, many of which have considerably greater financial, scientific, technical and marketing resources than us. We also experience competition in the development of our products and processes from universities and other research institutions and, in some instances, compete with others in acquiring technology from such sources.

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Competition in the pharmaceutical industry, and specifically in the oncology and immune-inflammatory areas being addressed by us, is particularly intense. Numerous pharmaceutical, biotechnology and generic companies have extensive anti-cancer and anti-inflammatory drug discovery, development and commercial resources. Bristol-Myers Squibb Co., Amgen Inc., Genentech, Inc., Sanofi-Aventis SA., Novartis AG, AstraZeneca PLC., Eli Lilly and Company, F. Hoffmann-LaRoche Ltd, Millennium Pharmaceuticals, Inc., MGI Pharma, Inc., Biogen Idec Inc., Merck and Co., Inc., Johnson and Johnson and Pfizer Inc. are among some of the companies researching and developing new compounds in the oncology and immunology fields.

The pharmaceutical and biotechnology industries have undergone, and are expected to continue to undergo, rapid and significant technological change. Also, consolidation and competition are expected to intensify as technical advances in each field are achieved and become more widely known. In order to compete effectively, we will be required to continually upgrade and expand our scientific expertise and technology, identify and retain capable personnel and pursue scientifically feasible and commercially viable opportunities.

Our competition will be determined in part by the indications and geographic markets for which our products are developed and ultimately approved by regulatory authorities. An important factor in competition will be the timing of market introduction of our or our competitors' products. Accordingly, the relative speed with which we can develop products, complete clinical trials and regulatory approval processes, receive pricing and reimbursement in certain markets and supply commercial quantities of products to the market are expected to be important competitive factors. Competition among products approved for

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sale will be based, among other things, on product efficacy, safety, convenience, reliability, availability, price, third-party reimbursement and patent and non-patent exclusivity.

### SIGNIFICANT ALLIANCES

From time to time we enter into strategic alliances with third parties whereby we either grant rights to certain of our compounds in exchange for rights to receive payments, or acquire rights to compounds owned by other pharmaceutical or biotechnology companies in exchange for obligations to make payments to the partnering companies. Payments either to or from third parties may be in the form of upfront payments, milestone payments contingent upon the achievement of pre-determined criteria and/or research and development funding. Under these arrangements, one of the parties may also purchase product and pay royalties on product sales. The following are our most significant alliances:

**NOVARTIS:** In April 2000, we entered into a development and license agreement with Novartis in which we granted to Novartis an exclusive worldwide license (excluding Canada) to further develop and market FOCALIN(TM) and FOCALIN XR(TM), the extended release drug formulation (D-METHYLPHENIDATE, OR D- MPH). We have retained the exclusive commercial rights to FOCALIN(TM) IR and FOCALIN XR(TM) for oncology-related disorders. We also granted Novartis rights to all of our related intellectual property and patents, including new formulations of the currently marketed RITALIN(R). Under the agreement, we have received upfront and regulatory achievement milestone payments totaling \$55.0 million through December 31, 2006 and are entitled to additional payments upon attainment of certain other milestone events. We also sell FOCALIN(TM) to Novartis as well as receive royalties on all of Novartis' sales of FOCALIN XR(TM) and RITALIN(R) family of ADHD-related products. The research portion of the agreement terminated in June 2003.

**PHARMION:** In November 2001, we licensed to Pharmion Corporation exclusive rights relating to the development and commercial use of our intellectual property covering thalidomide and S.T.E.P.S(R). Under the terms of the agreement, as amended in December 2004, we receive royalties of 8% of Pharmion's net thalidomide sales in countries where Pharmion has received regulatory

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approval and S.T.E.P.S(R) licensing fees of 8% in all other licensed territories. In December 2004, following our acquisition of Penn T Limited in which, among other things, we acquired a product supply agreement to exclusively supply Pharmion with thalidomide, we entered into an amended thalidomide supply agreement whereby in exchange for a reduction in Pharmion's purchase price to 15.5% of its net sales of thalidomide, we received a one-time payment of \$77.0 million. Pursuant to a separate December 2004 agreement, we also received a one-time payment of \$3.0 million in return for granting license rights to Pharmion to develop and market thalidomide in additional territories and eliminating certain of our license termination rights. Under the agreements, as amended, the territory licensed to Pharmion is for all countries other than the United States, Canada, Mexico, Japan and all provinces of China other than Hong Kong. The agreements with Pharmion terminate upon the ten-year anniversary following receipt of the first regulatory approval for thalidomide in the United Kingdom.

To support the further clinical development of thalidomide, Pharmion has also provided research funding under various agreements of approximately

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\$13.3 million through December 31, 2006, and is required to fund an additional \$2.7 million in 2007.

As of December 31, 2006, we held 1,939,598 shares of Pharmion common stock received in connection with the conversion of a five-year Senior Convertible Promissory Note and the exercise of warrants purchased in April 2003 under a Securities Purchase Agreement and the exercise of warrants received in connection with the November 2001 thalidomide and S.T.E.P.S(R) license agreement.

GLAXOSMITHKLINE: In March 2003, we entered into a supply and distribution agreement with GSK to distribute, promote and sell ALKERAN(R) (MELPHALAN), a therapy approved by the FDA for the palliative treatment of multiple myeloma and carcinoma of the ovary. Under the terms of the agreement, we purchase ALKERAN(R) tablets and ALKERAN(R) for injection from GSK and distribute the products in the United States under the Celgene label. The agreement requires us to purchase certain minimum quantities each year under a take-or-pay arrangement. The agreement has been extended through March 31, 2009. As of December 31, 2006, the remaining minimum purchase requirements under the agreement totaled \$67.3 million, consisting of the following:

- o January 1, 2007 - December 31, 2007 \$29.1 million
- o January 1, 2008 - December 31, 2008 \$30.5 million
- o January 1, 2009 - March 31, 2009 \$ 7.7 million

### MANUFACTURING

We have contracted with third party manufacturers to supply active pharmaceutical ingredient, or API, to meet our needs, and with third party manufacturing service providers to provide encapsulation and finishing services in accordance with our specifications, and with a third party contract packager to package the final product. We intend to continue to utilize third parties as needed to produce certain of our products on a commercial scale. Our third-party manufacturers and service providers are required to meet the FDA's cGMP regulations and guidelines. cGMP regulations require that all manufacturers of pharmaceuticals for sale in or from the United States achieve and maintain compliance with regulations governing the manufacturing, processing, packaging, storing and testing of drugs intended for human use.

We have purchased a site in Neuchatel, Switzerland where we are constructing a drug product manufacturing facility to perform formulation, encapsulation, packaging, warehousing and distribution and, in December 2006, we purchased an API manufacturing facility from Siegfried Ltd. and Siegfried Dienste AG (referred to here together as "Siegfried") located in Zofingen, Switzerland. The API facility has the capability to produce multiple drug substances and initially will be used to produce REVLIMID(R)

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API to supply global markets. The facility also may be used to produce drug substance for our future drugs and drug candidates.

The API for THALOMID(R) is obtained from Aptuit, Inc., which recently acquired Eagle Picher Pharmaceutical Services, a Division of Eagle-Picher Incorporated. We currently have adequate supplies of API for THALOMID(R) on hand to support our projected long-term requirements and do not believe that the acquisition of Eagle-Picher by Aptuit will result in any supply disruptions for the foreseeable future. In addition, a second supplier is currently being qualified. With regard to drug product manufacturing, we have contracted and registered two

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manufacturing service providers, Penn Pharmaceuticals Services Limited and Institute of Drug Technology Australia Limited, for the formulation and encapsulation of the finished dosage form of THALOMID(R) capsules, and one contract packager, Sharp Corporation, for the packaging of the final product.

The API for REVLIMID(R) is currently manufactured by our Zofingen, Switzerland, manufacturing facility purchased in December 2006 and by Evotec OAI, Ltd. We have also contracted and registered two manufacturing service providers, OSG Norwich Pharmaceuticals and Penn Pharmaceuticals Services Limited, for the formulation and encapsulation of the finished dosage form of REVLIMID(R) capsules, and one contract packager, Sharp Corporation, for the packaging of the final product.

The API for FOCALIN(TM) is currently obtained from two suppliers, Johnson Matthey Inc. and Siegfried USA, Inc., and we rely on a single manufacturer, Mikart, Inc., for the tableting and packaging of FOCALIN(TM) finished product. We obtain the API for FOCALIN XR(TM) from Johnson Matthey Inc., on behalf of Novartis for the manufacture of FOCALIN XR(TM) finished product.

### INTERNATIONAL OPERATIONS

We have established our international headquarters in Neuchatel, Switzerland where we are constructing a drug product manufacturing facility to perform formulation, encapsulation, packaging, warehousing and distribution and we have purchased an API manufacturing facility located in Zofingen, Switzerland. We have further expanded our international regulatory, clinical and commercial infrastructure in Europe and throughout the world, we have established the legal entities for our international operations. In Europe, we have made REVLIMID(R) available for sale under a Named Patient Program, which offers European patients in need access to REVLIMID(R) on a compassionate use basis while the EMEA reviews our application seeking approval to market REVLIMID(R) as a treatment for multiple myeloma and MDS.

We also have a strategic alliance with Pharmion Corporation to expand the THALOMID(R) franchise in all countries other than the United States, Canada, Mexico, Japan and all provinces of China other than Hong Kong. The strategic partnership combines Pharmion's global development and marketing expertise and our intellectual property. The alliance is designed to accelerate the establishment of THALOMID(R) as an important therapy in the international markets. To date, Pharmion has received regulatory approval in Australia, New Zealand, Turkey, Israel and Kuwait to market and distribute thalidomide for the treatment of multiple myeloma after the failure of standard therapies, as well as for the treatment of complications of leprosy. In October 2004, we acquired Penn T Limited, a worldwide supplier of THALOMID(R). Through manufacturing agreements entered into with a third party in connection with this acquisition, we are able to control manufacturing for THALOMID(R) worldwide and we also increased our participation in the potential sales growth of THALOMID(R) in key international markets.

### SALES AND COMMERCIALIZATION

We have a 324-person pharmaceutical commercial organization. These individuals have considerable experience in the pharmaceutical industry, and many have experience with oncological and immunological products. We expect to expand our sales and commercialization group to support

products we develop to treat oncological and immunological diseases. We intend to market and sell the products we develop for indications with accessible

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patient populations. For drugs with indications involving larger patient populations, we may partner with other pharmaceutical companies. In addition, we are positioned to accelerate the expansion of these sales and marketing resources as appropriate to take advantage of product in-licensing and product acquisition opportunities.

### EMPLOYEES

As of January 1, 2007, we had 1,287 full-time employees, 725 of whom were engaged primarily in research and development activities, 324 who were engaged in sales and commercialization activities and the remainder of who were engaged in executive and general and administrative activities. The number of international full-time employees has grown to 216 as of January 1, 2007. We also employ a number of part-time employees and maintain consulting arrangements with a number of researchers at various universities and other research institutions in Europe and the United States.

### FORWARD-LOOKING STATEMENTS

Certain statements contained or incorporated by reference in this Annual Report are forward-looking statements concerning our business, financial condition, results of operations, economic performance and financial condition based on our current expectations. Forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and within the meaning of Section 21E of the Securities Exchange Act of 1934 are included, for example, in the discussions about:

- o our strategy;
- o new product discovery, development or product introduction;
- o product manufacturing
- o product sales, royalties and contract revenues;
- o expenses and net income;
- o our credit risk management;
- o our liquidity;
- o our asset/liability risk management; and
- o our operational and legal risks.

These and other forward-looking statements involve risks and uncertainties. These forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to differ materially from those implied by such forward-looking statements. Given these risks and uncertainties, you are cautioned not to place undue reliance on any forward-looking statements.

You can identify these forward-looking statements by their use of words such as "forecast," "project," "plan," "strategy," "intend," "potential," "outlook," "target," "seek," "continue," "believe," "could," "estimate," "expect," "may," "probable," "should," "will" or other words of similar meaning in conjunction with, among other things, discussions of future operations, financial performance, our strategy for growth, product development, regulatory approval and market position. You also can identify them by the fact that they do not relate strictly to historical or current facts.

Reference is made, in particular, to forward-looking statements regarding the results of current or pending clinical trials, our products' ability to demonstrate efficacy or an acceptable safety profile, actions by the FDA, the financial conditions of suppliers including their solvency and ability to supply product, and other factors detailed in "Item 1A. Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." We note these factors as permitted by the Private Securities Litigation Reform Act of 1995.

Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission, we disclaim and do not undertake any obligations to update or revise publicly any forward-looking statements in this report, whether as a result of new information, future events, changes in assumptions, or otherwise.

#### ITEM 1A. RISK FACTORS

##### WE MAY EXPERIENCE SIGNIFICANT FLUCTUATIONS IN OUR QUARTERLY OPERATING RESULTS.

We have historically experienced, and expect to continue for the foreseeable future 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:

- o demand for our products;
- o our pricing decisions, and those of our competitors, including decisions to increase or decrease prices;
- o regulatory approvals for our products;
- o the timing and level of research and development and sales and marketing, including product launch costs;
- o the timing and level of reimbursement from third-party payors for our products;
- o the timing of the introduction and market acceptance of new products by us or competing companies;
- o the development or expansion of business infrastructure in new clinical and geographic markets;
- o the acquisition of new products and companies;
- o tax rates in the jurisdictions in which we operate;
- o the timing and recognition of certain research and development milestones and license fees;
- o our ability to control our costs; and
- o fluctuations in foreign currency exchange rates.

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IF WE ARE UNSUCCESSFUL IN DEVELOPING AND COMMERCIALIZING OUR PRODUCTS, OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND LIQUIDITY COULD BE MATERIALLY ADVERSELY AFFECTED WHICH COULD HAVE A NEGATIVE IMPACT ON THE VALUE OF OUR SECURITIES.

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. Moreover, our commercially available products may require additional studies with respect to approved indications as well as new indications pending approval. If it becomes too expensive to sustain our present commitment of resources on a long-term basis, we will be unable to continue certain necessary research and development activities. Furthermore, we cannot be certain that our clinical testing will render satisfactory results, or that we will receive required regulatory approvals for our new products or new indications. If any of our products, even if developed and approved, cannot be successfully commercialized, our business, financial condition, results of operations and liquidity could be materially adversely affected which could have a negative impact on the value of our common stock or debt securities obligations.

DURING THE NEXT SEVERAL YEARS, WE WILL BE VERY DEPENDENT ON THE COMMERCIAL SUCCESS OF REVLIMID(R), THALOMID(R), ALKERAN(R), FOCALIN(TM) AND FOCALIN XR(TM).

At our present and anticipated level of operations, we may not be able to maintain profitability without continued growth in our revenues. The growth of our business during the next several years will be largely dependent on the commercial success of REVLIMID(R) and our other products. REVLIMID(R) was approved by the FDA on December 27, 2005 for the treatment of certain myelodysplastic syndromes, or MDS, associated with a deletion 5q cytogenetic abnormality. REVLIMID(R) in combination with dexamethasone was approved by the FDA in June 2006 for treatment of patients with multiple myeloma who have received at least one prior therapy. REVLIMID(R) is distributed primarily through contracted pharmacies under the RevAssist(R) program, which is a proprietary risk-management distribution program tailored specifically to help ensure the safe use of REVLIMID(R). We do not have long-term data on the use of the product and cannot predict whether REVLIMID(R) will gain widespread acceptance, which will mostly depend on the continued acceptance of regulators, physicians, patients and other key opinion leaders as a relatively safe and effective drug that has certain advantages as compared to existing or future therapies. In addition, some of our products compete with one another as therapies designed to treat cancer. For example, market acceptance of REVLIMID(R) may result to the detriment of THALOMID(R) and ALKERAN(R). We are also seeking to market REVLIMID(R) in Europe as WELL as for other indications in the United States. A delay in gaining the requisite regulatory approvals could negatively impact our growth plans and the value of our common stock or debt securities obligations.

THALOMID(R) in combination with dexamethasone was approved by FDA in May 2006 for the treatment of patients with newly diagnosed multiple myeloma. In addition, THALOMID(R) is currently approved as a therapy for the treatment of erythema nodosum leprosum, or ENL, although the market for the use of THALOMID(R) in patients suffering from ENL is very small. If adverse experiences are reported in connection with the use of THALOMID(R) by patients, this could undermine physician and patient comfort with the product, could limit the commercial success of the product and could even impact the acceptance of our other products, including REVLIMID(R). Also, we are dependent upon sales of ALKERAN(R), which we license from GSK, and royalties based on Novartis' sales of FOCALIN XR(TM), which we cannot directly impact.

Our revenues and profits would be negatively impacted if generic versions of any of these products were to be approved and launched. See "WE MAY NOT BE ABLE TO

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PROTECT OUR INTELLECTUAL PROPERTY AND OUR PRODUCTS MAY BE SUBJECT TO GENERIC competition" in this Item 1A with respect to an Abbreviated New

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Drug Application, or ANDA, for a generic filing by Barr Laboratories, Inc. seeking permission to market generic versions of THALOMID(R).

IF OUR PRODUCTS ARE NOT ACCEPTED BY THE MARKET, DEMAND FOR OUR PRODUCTS WILL DETERIORATE OR NOT MATERIALIZE AT ALL.

It is necessary that our and our distribution partners' products, including REVLIMID(R), THALOMID(R), ALKERAN(R), FOCALIN(TM) and FOCALIN XR(TM), and the RITALIN(R) family of drugs achieve and maintain market acceptance. A number of factors can render the degree of market acceptance of our products uncertain, including the products' efficacy, safety and advantages, if any, over competing products, as well as the reimbursement policies of third-party payors, such as government and private insurance plans. In particular, thalidomide, when used by pregnant women, has resulted in serious birth defects, and the negative history associated with thalidomide and birth defects may decrease the market acceptance of THALOMID(R). In addition, the stem cell products that we are attempting to develop through our Celgene Cellular Therapeutics subsidiary may represent substantial departures from established treatment methods and will compete with a number of traditional drugs 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. If our products are not accepted by the market, demand for our products will deteriorate or not materialize at all.

WE HAVE GROWN RAPIDLY, AND IF WE FAIL TO ADEQUATELY MANAGE THAT GROWTH OUR BUSINESS COULD BE ADVERSELY IMPACTED.

We have an aggressive growth plan that has included substantial and increasing investments in research and development, sales and marketing, and facilities. We plan to continue to grow and our plan has a number of risks, some of which we cannot control. For example:

- o we will need to generate higher revenues to cover a higher level of operating expenses (including clinical trial costs, expenses associated with the regulatory approval process and commercialization of our products), and our ability to do so may depend on factors that we do not control;
- o we will need to assimilate new staff members;
- o we will need to manage complexities associated with a larger and faster growing multinational organization; and
- o we will need to accurately anticipate demand for the products we manufacture and maintain adequate manufacturing, marketing and distribution capacity, and our ability to do so may depend on factors that we do not control;

IF THE THIRD PARTIES UPON WHOM WE RELY FAIL TO PRODUCE ON A TIMELY BASIS THE API OR ENCAPSULATION, FINISHING AND PACKAGING SERVICES IN THE VOLUMES THAT WE REQUIRE OR FAIL TO MEET QUALITY STANDARDS AND MAINTAIN NECESSARY LICENSURE FROM REGULATORY AUTHORITIES, WE MAY BE UNABLE TO MEET DEMAND FOR OUR PRODUCTS, POTENTIALLY RESULTING IN LOST REVENUES.



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We have contracted with third party manufacturers to supply API to meet our needs, and with third party manufacturing service providers to provide encapsulation and finishing services in accordance with our

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specifications, and with a third party contract packager to package the final product. We intend to continue to utilize third parties as needed to produce certain of our products on a commercial scale.

The active pharmaceutical ingredient, or API, for THALOMID(R) is obtained from Aptuit, Inc., which recently acquired Eagle Picher Pharmaceutical Services, a Division of Eagle-Picher Incorporated. We currently have adequate supplies of API for THALOMID(R) on hand to support our projected long-term requirements and do not believe that the acquisition of Eagle-Picher by Aptuit will result in any supply disruptions for the foreseeable future. In addition, a second supplier is currently being qualified. With regard to drug product manufacturing, we rely on two manufacturing service providers, Penn Pharmaceuticals Services Limited and Institute of Drug Technology Australia Limited, for the formulation and encapsulation of the finished dosage form of THALOMID(R) capsules, and on one contract packager, Sharp Corporation, for the packaging of the final product.

The API for REVLIMID(R) is manufactured by our Zofingen, Switzerland, manufacturing facility purchased in December 2006 from Siegfried and by Evotec OAI Limited. We have contracted and registered two manufacturing service providers, OSG Norwich Pharmaceuticals and Penn Pharmaceuticals Services Limited, for the formulation and encapsulation of the finished dosage form of REVLIMID(R) capsules, and one contract packager, Sharp Corporation, for the packaging of the final product.

The API for FOCALIN(TM) is currently obtained from two suppliers, Johnson Matthey Inc. and Siegfried USA, Inc., and we rely on a single manufacturer, Mikart, Inc., for the tableting and packaging of FOCALIN(TM) finished product. We obtain the API for FOCALIN XR(TM) from Johnson Matthey Inc., on behalf of Novartis for the manufacture of FOCALIN XR(TM) finished product.

In all the countries where we sell our products, governmental regulations exist to define standards for manufacturing, packaging, labeling and storing. All of our suppliers of raw materials and contract manufacturers must comply with these regulations. Failure to do so could result in supply interruptions. 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 cGMP regulations and guidelines. 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, demand for our products or our ability to continue supplying such products could substantially decline.

WE HAVE LIMITED FOREIGN MARKETING AND DISTRIBUTION CAPABILITIES.

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We have limited marketing and distribution capabilities in countries other than the United States with respect to our products. We are currently expanding our infrastructure in these foreign countries to provide supportive marketing and distribution services. At the same time, we are in the process of obtaining necessary governmental and regulatory approvals to sell our products in such foreign jurisdictions. 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 foreign jurisdictions would be severely restricted. In addition, we have contracted with

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Ivers Lee Corporation, d/b/a Sharp, a specialty distributor, to distribute THALOMID(R) and REVLIMID(R) in the United States. If Sharp does not perform its obligations, our ability to distribute THALOMID(R) and REVLIMID(R) in the United States may be impacted for a limited period of time.

WE RECEIVE SIGNIFICANT REVENUES FROM COLLABORATIONS AND MAY BE DEPENDENT ON COLLABORATIONS AND LICENSES WITH THIRD PARTIES.

Our ability to fully commercialize our preclinical and clinical-stage pipeline, if developed, may depend to some extent upon our entering into collaborations with other pharmaceutical and biopharmaceutical companies with the requisite experience and financial and other resources to obtain regulatory approvals and to manufacture and market such products. Our collaborations and licenses include an exclusive license (excluding Canada) to Novartis for the development and commercialization of FOCALIN(TM) and FOCALIN XR(TM); an agreement with Pharmion Corporation to expand the THALOMID(R) franchise internationally; and an agreement with GSK enabling us to distribute, promote and sell ALKERAN(R). Our present and future arrangements may be jeopardized if any or all of the following occur:

- o we are not able to enter into additional joint ventures or other arrangements on acceptable terms, if at all;
- o our joint ventures or other arrangements do not result in a compatible working relationship;
- o our partners change their business priorities, fail to perform as agreed upon or experience financial difficulties that disrupt necessary business operations;
- o our joint ventures or other arrangements do not lead to the successful development and commercialization of any products;
- o we are unable to obtain or maintain proprietary rights or licenses to technology or products developed in connection with our joint ventures or other arrangements; or
- o we are unable to preserve the confidentiality of any proprietary rights or information developed in connection with our joint ventures or other arrangements.

WE MAY CONTINUE TO MAKE STRATEGIC ACQUISITIONS OF OTHER COMPANIES BUSINESSES OR PRODUCTS AND THESE ACQUISITIONS INTRODUCE SIGNIFICANT RISKS AND UNCERTAINTIES, INCLUDING RISKS RELATED TO INTEGRATING THE ACQUIRED BUSINESSES AND PRODUCTS AND TO ACHIEVING BENEFITS FROM THE ACQUISITIONS.

To take advantage of external growth opportunities, we have made, and may

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continue to make, strategic acquisitions that involve significant risks and uncertainties. These risks and uncertainties include: (1) the difficulty in integrating newly-acquired businesses and operations in an efficient and effective manner; (2) the challenges in achieving strategic objectives, cost savings and other benefits from acquisitions; (3) the risk that the technologies acquired do not evolve as anticipated; (4) contracts, agreements, assets and liabilities are not as represented; (5) the potential loss of key employees of the acquired businesses; (6) the risk of diverting the attention of senior management from our other operations; (7) the risks of entering new markets in which we have limited experience; (8) difficulties in expanding information technology systems and other business processes to accommodate the acquired businesses; (9) future impairments of goodwill and other intangibles of an acquired business; and, (10) the impact that possible in-process research and development charges may have on future earnings.

Many acquisition candidates in the biopharmaceuticals industry carry high price to earnings valuations. As a result, acquiring a business that has a high valuation may be dilutive to our earnings, especially when the acquired business has little or no revenue.

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Key employees of acquired businesses may receive substantial value in connection with a transaction in the form of change-in-control agreements, acceleration of stock options and the lifting of restrictions on other equity-based compensation rights. To retain such employees and integrate the acquired business, we may offer additional, sometimes costly, retention incentives.

WE MAY BE UNABLE TO RETAIN SKILLED PERSONNEL AND MAINTAIN KEY RELATIONSHIPS.

The success of our business depends, in large part, on our continued ability to (i) attract and retain highly qualified management, scientific, manufacturing and sales and marketing 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 stock options to attract and retain personnel. In addition, changes in stock option accounting rules require us to recognize all stock-based compensation costs as expenses. These or other factors could reduce the number of shares management and our board of directors choose to grant under our stock option plans. 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.

THE HAZARDOUS MATERIALS WE USE IN OUR RESEARCH, DEVELOPMENT AND OTHER BUSINESS OPERATIONS COULD RESULT IN SIGNIFICANT LIABILITIES, WHICH COULD EXCEED OUR INSURANCE COVERAGE AND FINANCIAL RESOURCES.

We use certain hazardous materials in our research, development 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. Any such accident or contamination 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.

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THE PHARMACEUTICAL INDUSTRY IS SUBJECT TO EXTENSIVE GOVERNMENT REGULATION WHICH PRESENTS NUMEROUS RISKS TO US.

The discovery, preclinical development, clinical trials, manufacturing, marketing and labeling of pharmaceuticals and biologics are all subject to extensive regulation by numerous governmental authorities and agencies in the United States and other countries. If we or our contractors and collaborators are delayed in receiving, or are unable to obtain at all, necessary governmental approvals, we will be unable to effectively market our products.

The testing, marketing and manufacturing of our products require regulatory approval, including approval from the FDA and, in some cases, from the U.S. Environmental Protection Agency, or the EPA, or governmental authorities outside of the United States that perform roles similar to those of the FDA and EPA. Certain of our pharmaceutical products, such as FOCALIN(TM), 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 several risks to us:

- o 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;

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- o 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;
- o Requirements for approval may become more stringent due to changes in regulatory agency policy, or the adoption of new regulations or legislation;
- o 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;
- o Pricing and reimbursement controls;
- o Approved drugs, 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;
- o Regulatory authorities and agencies of the United States or foreign governments may promulgate additional regulations restricting the sale of our existing and proposed products;

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- o Guidelines and recommendations published by various non-governmental organizations can reduce the use of our products;
- o 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;
- o Products, such as REVLIMID(R), that are subject to accelerated approval can be subject to an expedited withdrawal if the post-marketing study commitments are not completed with due diligence, 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 drugs 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.
- o Our labeling and promotional activities relating to our products are regulated by the FDA and state regulatory agencies and, in some circumstances, by the DEA, and are subject to associated risks. If we fail to comply with FDA regulations prohibiting promotion of off-label uses and the promotion of products for which marketing clearance has not been obtained, the FDA, or the Office of the Inspector General of the Department of Health and Human Services or the state

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Attorneys General could bring an enforcement action against us that could inhibit our marketing capabilities as well as result in significant penalties.

Additionally, the FDA approval process would allow 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. ANDAs and 505(b)(2) applications are generally less burdensome than full NDAs in that, in lieu of clinical data, these applications rely in whole, or in part, upon the safety and efficacy findings of the referenced approved product in conjunction with bridging data, typically bioequivalence data.

The FDA's Center for Biologics Evaluation and Research currently regulates under 21 CFR Parts 1270 and 1271 human tissue intended for transplantation that is recovered, processed, stored or distributed by methods that do not change tissue function or characteristics and that is not currently regulated as a human drug, biological product or medical device. Certain stem cell-related activities fall within this category. Part 1270 requires tissue establishments to screen and test donors, to prepare and follow written procedures for the prevention of the spread of communicable disease and to maintain records. It also provides for

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inspection by the FDA of tissue establishments. Part 1271 requires human cells, tissue and cellular and tissue-based product establishments (HCT/Ps) to register with the agency and list their HCT/Ps.

Currently, we are required to be, and are, licensed to operate in New York and New Jersey, two of the states in which we currently collect placentas and umbilical cord blood for our allogeneic and private stem cell banking businesses. If other states adopt similar licensing requirements, we would need to obtain such licenses to continue operating. 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 would impact negatively on our revenues.

WE MAY NOT BE ABLE TO PROTECT OUR INTELLECTUAL PROPERTY AND OUR PRODUCTS MAY BE SUBJECT TO GENERIC COMPETITION.

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 firms, including ours, can be uncertain and involve complex legal and factual questions.

Under the current U.S. patent laws, patent applications in the United States are maintained in secrecy for at least four to 18 months, and publication of discoveries in the scientific and patent literature often lag behind actual discoveries. Thus, we may discover sometime in the future that we, or the third parties from whom we have licensed patents or patent applications, were not the first to make and/or file the inventions covered by the patents and patent applications in which we have or seek rights. In the event that a third party has also filed a patent application for any of the inventions claimed in our patents or patent applications, or those we have licensed-in, we could become involved in an interference proceeding declared by the U.S. Patent and Trademark Office, or the PTO, to determine priority of invention or an opposition proceeding in other places such as Europe. Such an interference or opposition could result in the loss of an issued U.S. or foreign patent, respectively, or loss of any opportunity to secure U.S. patent protection for that invention. Even if the eventual outcome is favorable to us, such proceedings could result in substantial cost and delay to us and limit the scope of the claimed subject matter.

In addition, the coverage sought in a patent application may not be obtained or may be significantly reduced before the patent is issued. Consequently, if our pending applications, or pending application that we have licensed-in from third parties, do not result in the issuance of patents or if any patents that are

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issued do not provide significant proprietary protection or commercial advantage, our ability to sustain the necessary level of intellectual property rights upon which our success depends may be restricted.

Moreover, different countries have different procedures for obtaining patents, and patents issued in different countries provide different degrees of protection against the use of a patented invention by others. Therefore, if the issuance to us or our licensors, in a given country, of a patent covering an invention is not followed by the issuance in other countries of patents covering the same invention, or if any judicial interpretation of the validity, enforceability or scope of the claims in a patent issued in one country is not similar to the interpretation given to the corresponding patent issued in another country, our ability to protect our intellectual property in other

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countries may be limited.

Furthermore, even if our patent applications, or those we have licensed-in, are issued, our competitors may still challenge the scope, validity or enforceability of such patents in court, requiring us to engage in complex, lengthy and costly litigation. Alternatively, our competitors may be able to design around such patents and compete with us using the resulting alternative technology. If any of our issued or licensed patents are infringed, we may not be successful in enforcing our or our licensor's intellectual property rights or defending the validity or enforceability of our issued patents and subsequently not be able to develop or market applicable product exclusively.

FDA regulatory exclusivity for thalidomide has expired so that generic drug companies can file an ANDA to seek approval to market thalidomide in the United States. Barr Laboratories, Inc., a generic drug manufacturer located in Pomona, New York, filed an ANDA for the treatment of ENL in the manner described in our label and seeking permission from the FDA to market a generic version of 50mg, 100mg and 200mg THALOMID(R). Under the federal Hatch-Waxman Act of 1984, any generic manufacturer may file an ANDA with a certification (a "Paragraph IV certification") challenging the validity or infringement of a patent listed in the FDA's APPROVED DRUG PRODUCTS WITH THERAPEUTIC EQUIVALENCE EVALUATIONS, or the "Orange Book", four years after the pioneer company obtains approval of its New Drug Application, or an NDA. On or after December 5, 2006, Barr mailed notices of Paragraph IV certifications alleging that the following patents listed for THALOMID(R) in the Orange Book are invalid, unenforceable, and/or not infringed: U.S. Patent Nos. 6,045,501 ("the '501 patent"), 6,315,720 ("the '720 patent"), 6,561,976 ("the '976 patent"), 6,561,977 ("the '977 patent"), 6,755,784 ("the '784 patent"), 6,869,399 ("the '399 patent"), 6,908,432 ("the '432 patent"), and 7,141,018 ("the '018 patent"). The '501, '976, and '432 patents do not expire until August 28, 2018, while the remaining patents do not expire until October 23, 2020. On January 18, 2007, we filed an infringement action in the United States District Court of New Jersey against Barr. We intend to vigorously enforce our rights under these patents. If the ANDA is approved by the FDA, and Barr is successful in challenging our patents listed in the Orange Book for THALOMID(R), Barr would be permitted to sell a generic thalidomide product.

On August 19, 2004, we, together with our exclusive licensee Novartis, filed an infringement action in the United States District Court of New Jersey against Teva Pharmaceuticals USA, Inc., in response to notices of Paragraph IV certifications made by Teva in connection with the filing of an ANDA for FOCALIN(TM). The notification letters contend that U.S. Patent Nos. 5,908,850, or '850 patent, and 6,355,656, or '656 patent, were invalid. After the suit was filed, Novartis listed another patent, U.S. Patent No. 6,528,530, or '530 patent, in the Orange Book in association with the FOCALIN(TM) NDA. The original 2004 action asserted infringement of the '850 patent. Teva amended its answer during discovery to contend that the '850 patent was not infringed by the filing of its ANDA, and that the '850 patent is not enforceable due to an allegation of inequitable conduct. Fact discovery expired on February 28, 2006. At about the time of the filing of the '850 patent infringement action, reexamination proceedings for the '656 patent were initiated in the U.S. PTO. Recently, the U.S. PTO sent to us a Notice of Intent to Issue Ex Parte Reexamination Certificate. On December 21, 2006, Celgene and Novartis filed an action in the United States District Court of New Jersey against Teva for infringement of the '656 patent. As a related case, the '656 patent infringement action has been assigned to the same judge assigned to the '850 patent

infringement action who consolidated it with the previously pending '850 patent

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infringement action. No trial date has been set for either case. The statutory 30-month stay of FDA approval of Teva's ANDA expired on January 9, 2007. If Teva goes to market with a generic version of FOCALIN(TM) prior to trial, or successfully defends against both patents, our sales of FOCALIN(TM) to Novartis could be significantly reduced. The '530 patent is not part of the patent infringement action against Teva. The proceeding does not involve an ANDA for FOCALIN XR(TM).

On December 4, 2006, we, together with our exclusive licensee Novartis, filed an infringement action in the United States District Court for the District of New Jersey against Abrika Pharmaceuticals, Inc. and Abrika Pharmaceuticals, LLP, in response to a notice of a Paragraph IV certification made by Abrika Pharmaceuticals, Inc. in connection with the filing of an ANDA for RITALIN LA(TM). The notification letter contends that claims in United States Patent Nos. 5,837,284 and 6,635,284 are invalid and are not infringed by the proposed Abrika products. On December 6, 2006, we and Novartis filed a second identical action in the United States District Court for the District of Delaware as a protective suit and intended to serve the complaint and summons only in the event that personal jurisdiction in New Jersey was successfully challenged by Abrika. Abrika filed an answer and counterclaim in the Delaware court on December 8, 2006. The counterclaim seeks a declaratory judgment of patent invalidity, noninfringement and unenforceability. We and Novartis have moved the Delaware court to strike Abrika's answer and counterclaim without prejudice to refile if the complaint is later served, or to stay the action pending a determination of personal jurisdiction in the New Jersey court. The motion is fully briefed and awaiting a decision by the court. Abrika has moved to dismiss the New Jersey action or to transfer it to the Delaware court. We and Novartis have been granted leave to take discovery from Abrika prior to filing an opposition brief. The motion is scheduled to be fully briefed by March 26, 2007. Neither the Delaware court nor the New Jersey court has set a date for trial. If we are unsuccessful in defending our patents by a Court of final decision, Novartis' sales of RITALIN LA(TM) could be significantly reduced in the United States by the entrance of a generic RITALIN LA(TM) product, consequently reducing our revenue from royalties associated with these sales.

On June 14, 2006, an opposition proceeding was brought by IPC-Nordic A/S ("Opponent") against granted European Patent 1264597, which is one of second of two European patents that we have licensed from The Children's Medical Center Corporation and sub-licensed to Pharmion. The granted European patent in opposition relates to use of thalidomide as a medicament of the treatment of solid or blood-borne tumors. The Opponent alleges several bases for which the patent is not patentable. On February 13, 2007, a response to the opponent opposition brief was submitted to the European Patent Office. We intend to vigorously pursue our rights in the opposition proceeding.

On January 15, 2004, an opposition proceeding was brought by Celltech R&D Ltd. ("Opponent") against granted European Patent 0728143 which we have licensed from the University of California relating to JNK 1 and JNK 2 polypeptides. This proceeding is directed solely to our claims for JNK 2 and not JNK 1. An oral hearing occurred in October of 2005 in which the European Patent Office, or the EPO, advised us of its intent to revoke certain of our claims. A written decision confirming the intent of the EPO was issued in January of 2006. The written decision was appealed to the European Board of Appeals ("Board") in March of 2006. In connection with the appeal process, in May of 2006, we submitted a Statement of Grounds providing further evidence for consideration by the Board. The Opponent made no responsive submissions. An oral hearing is scheduled for May of 2007. We do have other JNK 1 and JNK European patent application claims pending.

We rely upon unpatented proprietary and trade secret technology that we try to protect, in part, by confidentiality agreements with our collaborative partners, employees, consultants, outside scientific collaborators, sponsored researchers



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and other advisors. If these agreements are breached, we may not have adequate remedies for any such breach. Despite precautions taken by us, others may obtain access to

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or independently develop our proprietary technology or such technology may be found to be non-proprietary or not a trade secret.

Our right to practice the inventions claimed in certain patents that relate to THALOMID(R) arises under licenses granted to us by others, including The Rockefeller University and Children's Medical Center Corporation, or CMCC. In addition to these patents, which relate to thalidomide, we have also licensed from CMCC certain patents relating to thalidomide analogs. In December 2002, we entered into an exclusive license agreement with CMCC and EntreMed Inc. pursuant to which CMCC exclusively licensed to us certain patents and patent applications that relate to analogs, metabolites, precursors and hydrolysis products of thalidomide, and all stereoisomers thereof. Our license under the December 2002 agreement is worldwide and royalty-bearing, and we have complete control over the prosecution of the licensed thalidomide analog patent rights. Under this December 2002 agreement, we are obligated to comply with certain milestones for a REVLIMID(R) approval and royalties with respect to sales of REVLIMID(R). The December 2002 agreement also grants us an option for a certain time period to inventions in the field of thalidomide analogs that may be developed at CMCC in the laboratory of Dr. Robert D'Amato, pursuant to the terms and conditions of a separate Sponsored Research Agreement negotiated between CMCC and us.

Further, while we believe these confidentiality agreements and license agreements to be valid and enforceable, our rights under these agreements may not continue or disputes concerning these agreements may arise. If any of the foregoing should occur, we may be unable to rely upon our unpatented proprietary and trade secret technology, or we may be unable to use the third-party proprietary technology we have licensed-in, either of which may prevent or hamper us from successfully pursuing our business.

It is also possible that third-party patent applications and patents could issue with claims that broadly cover certain aspects of our business or of the subject matter claimed in the patents or patent applications owned or optioned by us or licensed to us, which may limit our ability to conduct our business or to practice under our patents, and may impede our efforts to obtain meaningful patent protection of our own. If patents are issued to third parties that contain competitive or conflicting claims, we may be legally prohibited from pursuing research, development or commercialization of potential products or be required to obtain licenses to these patents or to develop or obtain alternative technology. We may be legally prohibited from using patented technology, may not be able to obtain any license to the patents and technologies of third parties on acceptable terms, if at all, or may not be able to obtain or develop alternative technologies. Consequently, if we cannot successfully defend against any patent infringement suit that may be brought against us by a third-party, we may lose the ability to continue to conduct our business as we presently do, or to practice certain subject matter delineated by patent claims that we have exclusive rights to, whether by ownership or by license, and that may have a material adverse effect on our business.

We rely upon trademarks and service marks to protect our rights to the intellectual property used in our business. On October 29, 2003, we filed a lawsuit against Centocor, Inc. to prevent Centocor's use of the term "I.M.I.D.s" in connection with Centocor's products, which use, we believe, is likely to cause confusion with our IMiDs(R) registered trademark for compounds (including REVLIMID(R)) developed or being developed by us to treat cancer and inflammatory

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diseases. If we are not successful in this suit, it may be necessary for us to adopt a different trademark for that class of compounds and thereby lose the value we believe we have built in the "IMiDs(R)" mark. Currently, this case is scheduled for trial on April 23, 2007.

WE FACE THE RISK OF PRODUCT LIABILITY CLAIMS.

We may be subject to a variety of product liability or other claims based on allegations that the use of our technology or products has resulted in adverse effects, whether by participants in our clinical trials, by

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patients using our products or by other persons exposed to our products. Thalidomide, when used by pregnant women, has resulted in serious birth defects. Therefore, necessary and strict precautions must be taken by physicians prescribing the drug and pharmacies dispensing the drug to women with childbearing potential. These precautions may not be observed in all cases or, if observed, may not be effective. Use of thalidomide has also been associated, in a limited number of cases, with other side effects, including nerve damage. Although we have product liability insurance that we believe is sufficient, we may be unable to maintain existing coverage or obtain additional coverage on commercially reasonable terms if required, or our coverage may be inadequate to protect us in the event of a multitude of claims being asserted against us. Our obligation to defend against or pay any product liability or other claim may be expensive and divert the efforts of our management and technical personnel.

LITIGATION ON A VARIETY OF MATTERS MAY SUBJECT US TO SIGNIFICANT LEGAL EXPENSES AND LIABILITY.

From time to time, we may be subject to litigation on a variety of matters, including, as discussed above, intellectual property, licensing arrangements with other persons and product liability. Litigation requires the expenditure of significant time and resources, and is inherently unpredictable. If any litigation were to have an unanticipated adverse result, there could be a material impact on our results of operations or financial position.

THE PHARMACEUTICAL AND BIOTECH INDUSTRY IS HIGHLY COMPETITIVE AND SUBJECT TO RAPID AND SIGNIFICANT TECHNOLOGICAL CHANGE.

The pharmaceutical 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:

- o Amgen, which potentially competes with our TNFa and kinase inhibitors;
- o Novartis, which potentially competes with our IMiDs(R) compounds and kinase programs;
- o Bristol Myers Squibb Co., which potentially competes in clinical trials with our IMiDs(R) compounds and TNFa inhibitors;
- o Genentech, Inc., which potentially competes in clinical trials with our IMiDs(R) compounds and TNFa inhibitors;
- o AstraZeneca plc, which potentially competes in clinical trials with our IMiDs(R) compounds and TNFa inhibitors;

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- o Millennium Pharmaceuticals Inc. and Johnson & Johnson, which potentially compete with REVLIMID(R) and THALOMID(R) in the treatment of multiple myeloma and in clinical trials with our IMiDs(R) compounds;
- o Pfizer Inc., which potentially competes in clinical trials with our kinase inhibitors;
- o Biogen Idec Inc. and Genzyme Corporation, both of which are generally developing drugs that address the oncology and immunology markets; and
- o Centocor, Inc., which potentially competes with certain of our proprietary programs including our oral anti-inflammatory programs.

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Many of these companies have considerably greater financial, technical and marketing resources than we do. 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.

### SALES OF OUR PRODUCTS ARE DEPENDENT ON THIRD-PARTY REIMBURSEMENT.

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 payors. These health care management organizations and third-party payors are increasingly challenging the prices charged for medical products and services. Additionally, the containment of health care costs has become a priority of federal and state governments, and the prices of drugs have been a focus in this effort. If these organizations and third-party payors do not consider our products to be cost-effective or competitive with 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.

In addition, certain legislative and regulatory changes to the healthcare system could impact the pricing of our products. Effective January 1, 2006, Medicare prescription drug coverage legislation authorizes the Centers for Medicare & Medicaid Services to implement a new Medicare, Part D coverage benefit for prescription drugs.

While numerous factors may influence the impact that the drug program may have on us, the most significant factors are:

- (a) not all drugs in a class may be covered under the program;
- (b) payment levels under the new Medicare program may be lower than the previous Medicare payment levels;
- (c) Medicare patients will have to pay co-insurance and this may influence which products are recommended by physicians and selected by patients;

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(d) enrollment in the program is mandatory for those who are dually eligible for both Medicaid and Medicare;

(e) there is no assurance that our drugs will be recognized under the new Medicare Part D program for outpatient prescription drugs or paid at levels that reflect current or historical levels;

(f) each Part D plan must review our drugs for addition to their formulary and there may be some lag time before being added to each plan's formulary, if added at all; and

(g) federal Medicare proposals, along with State Medicaid drug payment changes and healthcare reforms could also lower payment for our products.

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Our results of operations could be materially adversely affected by the reimbursement changes emerging in 2007 and beyond from the Medicare prescription drug coverage legislation. To the extent that private insurers such as Blue Cross and Blue Shield or managed care programs follow Medicaid coverage and payment developments, the adverse effects of lower Medicare payment may be magnified by private insurers adopting lower payment. Additionally, some states have enacted health care reform legislation. Further federal and state developments are possible. The impact of proposed legislation and other reforms is unclear, but it may result in pricing and reimbursement restrictions, which could adversely impact our revenues.

### CHANGES IN OUR EFFECTIVE INCOME TAX RATE COULD REDUCE OUR EARNINGS.

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 payments, changes in tax laws and rates, future levels of research and development spending, changes in accounting standards, future levels of capital expenditures, changes in the mix of earnings in the various tax jurisdictions in which we operate, challenges to our transfer pricing, the outcome of IRS exams 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 a negative impact on our results of operations.

### OUR OPERATIONS MAY BE IMPACTED BY CURRENCY FLUCTUATIONS THAT MAY CAUSE OUR EARNINGS TO FLUCTUATE AND ADVERSELY AFFECT OUR STOCK PRICE.

Fluctuations in the value of the U.S. dollar against foreign currencies could impact our earnings. We anticipate utilizing foreign currency forward contracts to manage foreign currency risk and not to engage in currency speculation. We would use these forward contracts to hedge certain forecasted transactions denominated in foreign currencies. Our hedging efforts would reduce but not eliminate our anticipated exposure to currency fluctuations. Any significant foreign exchange rate fluctuations within a short period of time could still 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.

Because of inherent limitations, 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

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the value of our common stock or debt securities obligations.

ACCOUNTING PRONOUNCEMENTS MAY AFFECT OUR FUTURE FINANCIAL POSITION AND RESULTS OF OPERATIONS.

There may be new accounting pronouncements or regulatory rulings, which may have an affect on our future financial position and results of operations. For example, in December 2004, the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 123R, "Share-Based Payment," which supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and requires companies to recognize compensation expense, using a fair-value based method, for costs related to share-based payments including stock options and stock issued under our employee stock plans. We have adopted SFAS 123R using the modified prospective application method on January 1, 2006. Our estimate of future stock-based compensation expense is affected by our stock price, the number of stock-based awards our board of directors may grant in 2007 and subsequent years, as well as a number of complex and subjective valuation assumptions and the related tax impact. These valuation assumptions include, but are not limited to, the volatility of our stock price and employee stock option exercise behaviors.

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THE PRICE OF OUR COMMON STOCK MAY FLUCTUATE SIGNIFICANTLY, WHICH MAY MAKE IT DIFFICULT FOR YOU TO SELL THE COMMON STOCK WHEN YOU WANT OR AT PRICES YOU FIND ATTRACTIVE.

There has been significant volatility in the market prices for publicly traded shares of biopharmaceutical companies, including ours. We expect that the market price of our common stock will continue to fluctuate. The split-adjusted intra-day price of our common stock fluctuated from a high of \$60.12 per share to a low of \$31.51 per share in 2006. On December 31, 2006, our common stock closed at a price of \$57.53 per share. The price of our common stock may not remain at or exceed current levels. The following key factors may have an adverse impact on the market price of our common stock:

- o results of our clinical trials or adverse events associated with our marketed products;
- o announcements of technical or product developments by our competitors;
- o market conditions for pharmaceutical and biotechnology stocks;
- o market conditions generally;
- o governmental regulation;
- o new accounting pronouncements or regulatory rulings;
- o health care legislation;
- o public announcements regarding medical advances in the treatment of the disease states that we are targeting;
- o patent or proprietary rights developments;
- o changes in pricing and third-party reimbursement policies for our products;

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- o fluctuations in our operating results;
- o the outcome of litigation involving our products or processes related to production and formulation of those products or uses of those products; or
- o competition.

In addition, the stock market in general and the biotechnology sector in particular has experienced extreme volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the market price of our common stock.

THE NUMBER OF SHARES OF OUR COMMON STOCK ELIGIBLE FOR FUTURE SALE COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

Future sales of substantial amounts of our common stock or debt or other securities convertible into common stock could adversely affect the market price of our common stock. As of December 31, 2006, there were outstanding stock options and warrants for 37,490,340 shares of common stock, of which 28,013,548 were currently vested and exercisable at an exercise price range between \$0.04 per share and \$59.01 per share, with a weighted average exercise price of \$16.97 per share. In addition, in June 2003, we issued \$400.0 million of unsecured convertible notes that are currently convertible into 33,014,519

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shares of our common stock at the conversion price of \$12.1125. The conversion of some or all of these notes will dilute the ownership interest of existing stockholders.

OUR SHAREHOLDER RIGHTS PLAN AND CERTAIN CHARTER AND BY-LAW PROVISIONS 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 adopted a shareholder rights plan, the purpose of which is to protect stockholders against unsolicited attempts to acquire control of us that do not offer a fair price to all of our stockholders. The rights plan may have the effect of dissuading a potential acquirer from making an offer for our common stock at a price that represents a premium to the then current trading price.

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.

### AVAILABLE INFORMATION

Our current reports on Form 8-K, quarterly reports on Form 10-Q and Annual Reports on Form 10-K are electronically filed with or furnished to the

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Securities and Exchange Commission, or SEC, and all such reports and amendments to such reports filed have been and will be made available, free of charge, through our website ([HTTP://WWW.CELGENE.COM](http://WWW.CELGENE.COM)) as soon as reasonably practicable after such filing. Such reports will remain available on our website for at least 12 months. The contents of our website are not incorporated by reference into this Annual Report. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NW, Washington, D.C. 20549.

The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### ITEM 2. PROPERTIES

Our corporate headquarters are located in Summit, New Jersey on approximately 45 acres of land and consist of several buildings, which house our administrative, sales, marketing and research functions. This facility was purchased in 2004 and should accommodate our needs for the foreseeable future.

We own a site in Neuchatel, Switzerland where we are constructing our European headquarters and a drug product manufacturing facility to perform formulation, encapsulation, packaging, warehousing and distribution. The site is scheduled for completion during 2007. In December 2006, we purchased an API

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manufacturing facility from Siegfried located in Zofingen, Switzerland. The API facility has the capability to produce multiple drug substances and initially will be used to produce REVLIMID(R) API to supply global markets. The facility may also be used to produce drug substance for our future drugs and drug candidates.

We occupy the following facilities under lease arrangements that have remaining lease terms greater than one-year. Under these lease arrangements, we also are required to reimburse the lessors for real estate taxes, insurance, utilities, maintenance and other operating costs. All leases are with unaffiliated parties.

- o 73,500-square feet of laboratory and office space in Warren, New Jersey. The two leases for this facility have terms ending in May 2007 and July 2010, respectively, and each has two five-year renewal options. We expect to renew the lease expiring in May 2007 for an additional five-year term. Annual rent for these facilities is approximately \$1.0 million.
- o 78,202-square feet of laboratory and office space in San Diego, California. The lease for this facility has a term ending in August 2012 with one five-year renewal option. Annual rent for this facility is approximately \$2.0 million and is subject to specified annual rental increases.
- o 20,234-square feet of office and laboratory space in Cedar Knolls, New Jersey. The leases for this facility have terms ending between October 2007 and April 2009 with renewal options ranging from either one or two additional five-year terms. We expect to renew the lease

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expiring in October 2007 for an additional five-year term. Annual rent for this facility is approximately \$0.3 million and is subject to specified annual rental increases.

- o 11,000-square feet of office and laboratory space in Baton Rouge, Louisiana. The lease for this facility has a term ending in May 2008 with one three-year renewal option. Annual rent for this facility is approximately \$0.1 million.

We also lease a number of offices under various lease agreements in Europe, Australia and Japan. The minimum annual rents may be subject to specified annual rent increases. At December 31, 2006, the non-cancelable lease terms for these operating leases expire at various dates between 2007 and 2015 and in some cases include renewal options.

### ITEM 3. LEGAL PROCEEDINGS

Barr Laboratories, Inc., a generic drug manufacturer located in Pomona, New York, filed an ANDA for the treatment of ENL in the manner described in our label and seeking permission from the FDA to market a generic version of 50mg, 100mg and 200mg THALOMID(R). Under the federal Hatch-Waxman Act of 1984, any generic manufacturer may file an ANDA with a certification (a "Paragraph IV certification") challenging the validity or infringement of a patent listed in the FDA's Orange Book four years after the pioneer company obtains approval of its New Drug Application, or an NDA. On or after December 5, 2006, Barr mailed notices of Paragraph IV certifications alleging that the following patents listed for THALOMID(R) in the Orange Book are invalid, unenforceable, and/or not infringed: U.S. Patent Nos. 6,045,501 ("the '501 patent"), 6,315,720 ("the '720 patent"), 6,561,976 ("the '976 patent"), 6,561,977 ("the '977 patent"), 6,755,784 ("the '784 patent"), 6,869,399 ("the '399 patent"), 6,908,432 ("the '432 patent"), and 7,141,018 ("the '018 patent"). The '501, '976, and '432 patents do not expire until August 28, 2018, while the remaining patents do not expire until October 23, 2020. On January 18, 2007, we filed an infringement action in the United States District Court of New Jersey against Barr. We intend to vigorously enforce our rights under these patents. If the ANDA is approved by the FDA, and Barr is successful in challenging our patents listed in the Orange Book for THALOMID(R), Barr would be permitted to sell a generic thalidomide product.

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On August 19, 2004, we, together with our exclusive licensee Novartis, filed an infringement action in the United States District Court of New Jersey against Teva Pharmaceuticals USA, Inc., in response to notices of Paragraph IV certifications made by Teva in connection with the filing of an ANDA for FOCALIN(TM). The notification letters contend that United States Patent Nos. 5,908,850, or '850 patent, and 6,355,656, or '656 patent, were invalid. After the suit was filed, Novartis listed another patent, United States Patent No. 6,528,530, or '530 patent, in the Orange Book in association with the FOCALIN(TM) NDA. The original 2004 action asserted infringement of the '850 patent. Teva amended its answer during discovery to contend that the '850 patent was not infringed by the filing of its ANDA, and that the '850 patent is not enforceable due to an allegation of inequitable conduct. Fact discovery expired on February 28, 2006. At about the time of the filing of the '850 patent infringement action, reexamination proceedings for the '656 patent were initiated in the U.S. PTO. Recently, the U.S. PTO sent to us a Notice of Intent to Issue Ex Parte Reexamination Certificate. On December 21, 2006, Celgene and Novartis filed an action in the United States District Court of New Jersey against Teva for infringement of the '656 patent. As a related case, the '656 patent infringement action has been assigned to the same judge assigned to the



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'850 patent infringement action who consolidated it with the previously pending '850 patent infringement action. No trial date has been set. The statutory 30-month stay of FDA approval of Teva's ANDA expired on January 9, 2007. If Teva goes to market with a generic version of FOCALIN(TM) prior to trial, or successfully defends against both patents, our sales of FOCALIN(TM) to Novartis could be significantly reduced. The '530 patent is not part of the patent infringement action against Teva. The proceeding does not involve an ANDA for FOCALIN XR(TM).

On December 4, 2006, we, together with our exclusive licensee Novartis, filed an infringement action in the United States District Court for the District of New Jersey against Abrika Pharmaceuticals, Inc. and Abrika Pharmaceuticals, LLP, in response to a notice of a Paragraph IV certification made by Abrika Pharmaceuticals, Inc. in connection with the filing of an ANDA for RITALIN LA(TM). The notification letter contends that claims in United States Patent Nos. 5,837,284 and 6,635,284 are invalid and are not infringed by the proposed Abrika products. On December 6, 2006, we and Novartis filed a second identical action in the United States District Court for the District of Delaware as a protective suit and intended to serve the complaint and summons only in the event that personal jurisdiction in New Jersey was successfully challenged by Abrika. Abrika filed an answer and counterclaim in the Delaware court on December 8, 2006. The counterclaim seeks a declaratory judgment of patent invalidity, noninfringement and unenforceability. We and Novartis have moved the Delaware court to strike Abrika's answer and counterclaim without prejudice to refile if the complaint is later served, or to stay the action pending a determination of personal jurisdiction in the New Jersey court. The motion is fully briefed and awaiting a decision by the court. Abrika has moved to dismiss the New Jersey action or to transfer it to the Delaware court. We and Novartis have been granted leave to take discovery from Abrika prior to filing an opposition brief. The motion is scheduled to be fully briefed by March 26, 2007. Neither the Delaware court nor the New Jersey court has set a date for trial. If we are unsuccessful in defending our patents by a Court of final decision, Novartis' sales of RITALIN LA(TM) could be significantly reduced in the United States by the entrance of a generic RITALIN LA(TM) product, consequently reducing our revenue from royalties associated with these sales.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET PRICE OF DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(A) MARKET INFORMATION

Our common stock is traded on the NASDAQ Global Select Market under the symbol "CELG." The following table sets forth, for the periods indicated, the split-adjusted intra-day high and low prices per share of common stock on the NASDAQ Global Select Market:

| ----- | HIGH | LOW | ----- |
|-------|------|-----|-------|
|-------|------|-----|-------|

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|                |         |         |
|----------------|---------|---------|
| 2006           |         |         |
| Fourth Quarter | \$60.12 | \$41.68 |
| Third Quarter  | 49.41   | 39.31   |
| Second Quarter | 48.40   | 36.02   |
| First Quarter  | 44.22   | 31.51   |
|                |         |         |
| 2005           |         |         |
| Fourth Quarter | \$32.68 | \$22.59 |
| Third Quarter  | 29.41   | 19.77   |
| Second Quarter | 21.62   | 16.60   |
| First Quarter  | 17.62   | 12.35   |

Comparison of five-year cumulative total return among Celgene Corporation, the S&P 500 Index, the NASDAQ Composite Index and the NASDAQ Pharmaceutical Index is included in this filing as Exhibit 99.1

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(B) HOLDERS

The last reported sales price per share of common stock on the NASDAQ Global Select Market on February 22, 2007 was \$54.87. As of January 29, 2007, there were approximately 165,518 holders of record of our common stock.

(C) DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings for funding growth and, therefore, do not anticipate paying any cash dividends on our common stock in the foreseeable future.

(D) EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes the equity compensation plans under which our common stock may be issued as of December 31, 2006:

| PLAN CATEGORY  | NUMBER OF SECURITIES<br>TO BE ISSUED UPON<br>EXERCISE OF<br>OUTSTANDING OPTIONS,<br>WARRANTS AND RIGHTS<br>(A) | WEIGHTED-AVERAGE<br>EXERCISE PRICE OF<br>OUTSTANDING OPTIONS,<br>WARRANTS AND RIGHTS<br>(B) | NUMBER OF<br>REMAINING<br>FUTURE<br>EQUITY<br>EXCLUDED<br>REFLECTED |
|--|--|---|---|
| Equity compensation plans approved by security holders     | 35,237,965   | \$18.89   |   |
| Equity compensation plans not approved by security holders | 2,252,375  | \$ 4.45   |   |
| Total  | 37,490,340   | \$18.02   |   |

The Anthrogenesis Corporation Qualified Employee Incentive Stock Option Plan has

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not been approved by our stockholders. As a result of the acquisition of Anthrogenesis on December 31, 2002, we acquired the Anthrogenesis Qualified Employee Incentive Stock Option Plan, or the Qualified Plan, and the Non-Qualified Recruiting and Retention Stock Option Plan, or the Non-Qualified Plan. No future awards will be granted under the Non-Qualified Plan. The Qualified Plan authorizes the award of incentive stock options, which are stock options that qualify for special federal income tax treatment. The exercise price of any stock option granted under the Qualified Plan may not be less than the fair market value of the common stock on the date of grant. In general, options granted under the Qualified Plan vest evenly over

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a four-year period and expire ten years from the date of grant, subject to earlier expiration in case of termination of employment. The vesting period is subject to certain acceleration provisions if a change in control occurs. No award will be granted under the Qualified Plan on or after December 31, 2008.

### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following Selected Consolidated Financial Data should be read in conjunction with our Consolidated Financial Statements and the related Notes thereto, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere in this Annual Report. The data set forth below with respect to our Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004 and the Consolidated Balance Sheet data as of December 31, 2006 and 2005 are derived from our Consolidated Financial Statements which are included elsewhere in this Annual Report and are qualified by reference to such Consolidated Financial Statements and related Notes thereto. The data set forth below with respect to our Consolidated Statements of Operations for the years ended December 31, 2003 and 2002 and the Consolidated Balance Sheet data as of December 31, 2004, 2003 and 2002 are derived from our Consolidated Financial Statements, which are not included elsewhere in this Annual Report. Our historical results are not necessarily indicative of future results of operations.

| IN THOUSANDS, EXCEPT PER SHARE DATA                | 2006       | 2005       | YEARS ENDED DECEMBER 31, |            |
|--|------------|------------|--------------------------|------------|
|  |            |            | 2004                     | 2003       |
| <b>CONSOLIDATED STATEMENTS OF OPERATIONS DATA:</b> |            |            |                          |            |
| Total revenue                                      | \$ 898,873 | \$ 536,941 | \$ 377,502               | \$ 271,475 |
| Costs and operating expenses                       | 724,182    | 453,357    | 334,774                  | 274,124    |
| Operating income (loss)                            | 174,691    | 83,584     | 42,728                   | (2,649)    |
| Interest and investment income, net                | 40,352     | 24,557     | 28,340                   | 21,760     |
| Equity in losses of affiliated companies           | 8,233      | 6,923      | --                       | 4,392      |
| Interest expense                                   | 9,417      | 9,497      | 9,551                    | 5,667      |
| Other income (expense), net                        | 5,502      | (7,509)    | 1,654                    | 16,609     |
| Income (loss) before tax                           | 202,895    | 84,212     | 63,171                   | 25,661     |
| Income tax provision (benefit)                     | 133,914    | 20,556     | 10,415                   | 718        |
| Income (loss) from continuing operations           | 68,981     | 63,656     | 52,756                   | 24,943     |

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|                               |           |           |           |           |
|-------------------------------|-----------|-----------|-----------|-----------|
| Discontinued operations:      |           |           |           |           |
| Gain on sale of chiral assets | --        | --        | --        | 750       |
| Net income (loss)             | \$ 68,981 | \$ 63,656 | \$ 52,756 | \$ 25,693 |

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|   | YEARS ENDED DECEMBER 31, |         |         |         |
|---|--------------------------|---------|---------|---------|
|   | 2006                     | 2005    | 2004    | 2003    |
| Income (loss) from continuing operations per common share(1): |                          |         |         |         |
| Basic   | \$ 0.20                  | \$ 0.19 | \$ 0.16 | \$ 0.08 |
| Diluted   | \$ 0.18                  | \$ 0.18 | \$ 0.15 | \$ 0.07 |
| Net income (loss) per common share (1):                       |                          |         |         |         |
| Basic   | \$ 0.20                  | \$ 0.19 | \$ 0.16 | \$ 0.08 |
| Diluted   | \$ 0.18                  | \$ 0.18 | \$ 0.15 | \$ 0.08 |
| Weighted average shares(1):                                   |                          |         |         |         |
| Basic   | 352,217                  | 335,512 | 327,738 | 323,548 |
| Diluted   | 407,181                  | 390,585 | 345,710 | 341,592 |

(1) Amounts have been adjusted for the two-for-one stock splits effected in February 2006 and October 2004.

| IN THOUSANDS                                     | YEARS ENDED DECEMBER 31, |            |            |           |
|--|--------------------------|------------|------------|-----------|
|  | 2006                     | 2005       | 2004       | 2003      |
| CONSOLIDATED BALANCE SHEETS DATA                 |                          |            |            |           |
| Cash, cash equivalents and marketable securities | \$ 1,982,220             | \$ 724,260 | \$ 748,537 | \$ 66,000 |
| Total assets                                     | 2,735,791                | 1,258,313  | 1,107,293  | 81,000    |
| Convertible notes                                | 399,889                  | 399,984    | 400,000    | 40,000    |
| Accumulated deficit                              | (101,773)                | (170,754)  | (234,410)  | (28,000)  |
| Stockholders' equity                             | 1,976,177                | 635,775    | 477,444    | 33,000    |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

We are a global integrated biopharmaceutical company primarily engaged in the discovery, development and commercialization of innovative therapies designed to treat cancer and immune-inflammatory related diseases. Our lead products are: REVLIMID(R) (lenalidomide), which was approved by the U.S. Food and Drug

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Administration, or FDA, in December 2005 for treatment of patients with 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 and in June 2006 for treatment in combination with dexamethasone for multiple myeloma patients who have received at least one prior therapy; and, THALOMID(R) (thalidomide), which gained FDA approval in May 2006 for treatment in combination with dexamethasone of newly diagnosed multiple myeloma patients and which is also approved in erythema nodosum leprosum, an inflammatory complication of leprosy. Over the past several years, our total revenues have increased led by REVLIMID(R) and THALOMID(R) sales growth. This growth has enabled us to make substantial investments in research and development and thus, advance our broad portfolio of drug candidates in our product pipeline, including our IMiDs(R) compounds, which are a class of compounds proprietary to us and having certain immunomodulatory and other biologically important properties. We believe that the commercial potential of REVLIMID(R) and THALOMID(R), the depth of our product pipeline, near-term regulatory activities and clinical data reported

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both at major medical conferences and in peer-reviewed publications provide the catalysts for our future growth.

### FACTORS AFFECTING FUTURE RESULTS

Future operating results will depend on many factors, including demand for our products, regulatory approvals of our products and product candidates, the timing and market acceptance of new products launched by us or competing companies, the timing of research and development milestones, challenges to our intellectual property and our ability to control costs. See also the Risk Factors discussion contained in Part I, Item 1A. Some of the more salient factors that we are focused on include: the ability of REVLIMID(R) to successfully penetrate relevant markets; our ability to advance clinical and regulatory programs and competitive risks.

**THE ABILITY OF REVLIMID(R) TO SUCCESSFULLY PENETRATE RELEVANT MARKETS:** Our REVLIMID(R) launch strategy has included among other things: registering physicians in the RevAssist(R) program, which is a proprietary risk-management distribution program tailored specifically to help ensure the safe use of REVLIMID(R); partnering with contracted pharmacies to ensure, to the maximum extent possible, safe and rapid distribution of REVLIMID(R); and, transitioning previously treated multiple myeloma patients from our expanded access program, which provided patients with free access to REVLIMID(R), to commercial paying patients as a result of the June 2006 approval in combination with dexamethasone for multiple myeloma patients who have received at least one prior therapy. While these initiatives appear to have resulted in a highly visible and successful product launch, we remain focused on ensuring REVLIMID(R)'s continued market penetration in both multiple myeloma and MDS. We do not have long-term data on the use of the product and cannot predict whether REVLIMID(R) will gain widespread acceptance, which will mostly depend on the acceptance of regulators, physicians, patients, payors and opinion leaders. The success of REVLIMID(R) will also depend, in part, on prescription drug coverage by government health agencies, commercial and employer health plans, and other third-party payors. As an oral cancer agent, REVLIMID(R) qualifies as a Medicare, Part D drug. Each Part D plan will review REVLIMID(R) for addition to their formulary. As with all new products introduced into the market, there may be some lag time before being added to each plan's formulary, which may impact our commercial performance.

**THE ABILITY TO ADVANCE REGULATORY AND CLINICAL PROGRAMS:** Obtaining international regulatory approvals beginning with Europe is a key component of our continued

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growth strategy. We currently have two REVLIMID(R) Marketing Authorization Applications, or MAA's, under review by the European Medicines Agency, or EMEA. The MAAs seek approval to market REVLIMID(R) in both multiple myeloma and MDS with the 5q chromosomal deletion. The timing of European approval is unpredictable. Moreover, the period of time it takes to obtain pricing and reimbursement approvals in each country could further delay our international growth strategy.

A major objective of our on-going clinical programs is to broaden our knowledge about the full potential of REVLIMID(R) and our other proprietary IMiDs(R) compounds and to continue to evaluate them in a broad range of hematological malignancies and other cancers. Our near-term focus is on evaluating REVLIMID(R) as a treatment of chronic lymphocytic leukemia and aggressive non-Hodgkin's lymphomas.

COMPETITIVE RISKS: While competition could limit REVLIMID(R) and THALOMID(R) sales, we do not believe that competing products would eliminate their use entirely. Moreover, while generic competitors could seek to challenge our THALOMID(R) franchise, we own intellectual property which includes, for example, U.S. patents covering our S.T.E.P.S.(R) distribution program for the safe distribution and appropriate use of thalidomide, which all physicians, patients and pharmacies prescribing, receiving or dispensing thalidomide in the United States must follow. We also have exclusive rights to several issued patents covering the use of THALOMID(R) in oncology and other therapeutic areas.

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### COMPANY BACKGROUND

- o In 1986, we were spun off from Celanese Corporation and, in July 1987, we completed an initial public offering. Initially, our operations involved research and development of chemical and biotreatment processes for the chemical and pharmaceutical industries. Between 1990 and 1998, our revenues were derived primarily from the development and supply of chirally pure intermediates to pharmaceutical companies for use in new drug development. By 1998, sales of chirally pure intermediates became a less integral part of our strategic focus and, in January 1998, we sold the chiral intermediates business to Cambrex Corporation.
- o In July 1998, we received approval from the FDA to market THALOMID(R) for the treatment and suppression of ENL, an inflammatory complication of leprosy. Sales of THALOMID(R) have grown significantly each year since then. In 2004, 2005 and 2006 we recorded net THALOMID(R) sales of \$308.6 million, \$387.8 million and \$433.0 million, respectively.
- o In April 2000, we entered into a development and license agreement with Novartis Pharma AG in which we granted to Novartis an exclusive worldwide license to further develop and market FOCALIN(TM), our chirally pure version of RITALIN(R). The agreement provided for significant upfront and milestone payments to us based on the achievement of various stages in the regulatory approval process. Under the agreement, we sell FOCALIN(TM) to Novartis as well as receive royalties on all of Novartis' sales of FOCALIN XR(TM) and RITALIN(R) family of ADHD-related products.
- o In August 2000, we acquired Signal Pharmaceuticals, Inc., d/b/a Celgene Research San Diego, a privately held biopharmaceutical company focused on the discovery and development of drugs that regulate genes associated with disease.
- o In November 2001, we licensed to Pharmion Corporation exclusive rights

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relating to the development and commercial use of our intellectual property covering thalidomide and S.T.E.P.S(R) in all countries outside of North America, Japan, China, Taiwan and Korea (see our references below to the December 2004 amendment with respect to these territories).

- o In December 2002, we acquired Anthrogenesis Corp., a privately held biotherapeutics company developing processes for the recovery of stem cells from human placental tissue following the completion of a successful full-term pregnancy for use in stem cell transplantation, cancer, autoimmune diseases, regenerative medicine and biomaterials for organ and wound repair.
- o In March 2003, we entered into a supply and distribution agreement with GlaxoSmithKline, or GSK, to distribute, promote and sell ALKERAN(R), or melphalan, a therapy approved by the FDA for the palliative treatment of multiple myeloma and carcinoma of the ovary. The agreement requires that we purchase ALKERAN(R) from GSK and distribute the products in the United States under the Celgene label. The agreement has been extended through March 31, 2009.
- o In October 2004, we acquired Penn T Limited, or Penn T, a worldwide supplier of THALOMID(R). Through manufacturing agreements acquired in the transaction, we are able to control manufacturing for THALOMID(R) worldwide. In the transaction, we also acquired a product supply agreement to exclusively supply Pharmion with thalidomide, thereby enabling us to increase our participation in thalidomide sales in key international markets. Subsequently, in December 2004, we amended the thalidomide supply agreement with Pharmion and granted them license rights in additional territories. As amended, the territory licensed to Pharmion is for all countries other than the United States, Canada, Mexico, Japan and all provinces of China other than Hong Kong.

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- o In December 2005, the FDA approved REVLIMID(R) for the treatment of patients with transfusion-dependent anemia due to low- or intermediate-1-risk myelodysplastic syndromes associated with a deletion 5q cytogenetic abnormality with or without additional cytogenetic abnormalities and, in June 2006, the FDA approved REVLIMID(R) for treatment in combination with dexamethasone for multiple myeloma patients who have received at least one prior therapy. In May 2006, we also received an additional approval from the FDA to market THALOMID(R) for treatment in combination with dexamethasone of newly diagnosed multiple myeloma.
- o In November 2006, we issued an additional 20,000,000 shares of our common stock at a public offering price of \$51.60 per share with gross proceeds of \$1.032 billion and proceeds, net of the underwriters' discount, of \$1.006 billion.
- o In December 2006, we purchased an API manufacturing facility and certain assets and liabilities from Siegfried located in Zofingen, Switzerland. The API facility has the capability to produce multiple drug substances and initially will be used to produce REVLIMID(R) API to supply global markets. The facility also may be used to produce drug substance for our future drugs and drug candidates.

RESULTS OF OPERATIONS -

FISCAL YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

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TOTAL REVENUE: Total revenue and related percentages for the years ended December 31, 2006, 2005 and 2004, were as follows:

| (IN THOUSANDS \$)                             | 2006      | 2005      | 2004      | % CHANGE           |                    |
|---|-----------|-----------|-----------|--------------------|--------------------|
|   |           |           |           | 2005<br>TO<br>2006 | 2004<br>TO<br>2005 |
| -----   |           |           |           |                    |                    |
| Net product sales:                            |           |           |           |                    |                    |
| REVLIMID (R)                                  | 320,558   | 2,862     | --        | N/A                | N/A                |
| THALOMID (R)                                  | 432,950   | 387,816   | 308,577   | 11.6%              | 25.7%              |
| ALKERAN (R)                                   | 50,337    | 49,748    | 16,956    | 1.2%               | 193.4%             |
| FOCALIN (TM)                                  | 7,340     | 4,210     | 4,177     | 74.3%              | 0.8%               |
| Other   | 420       | 989       | 861       | (57.5)%            | 14.9%              |
|   | -----     |           |           |                    |                    |
| Total net product sales                       | \$811,605 | \$445,625 | \$330,571 | 82.1%              | 34.8%              |
| Collaborative agreements<br>and other revenue | 18,189    | 41,334    | 20,012    | (56.0)%            | 106.5%             |
| Royalty revenue                               | 69,079    | 49,982    | 26,919    | 38.2%              | 85.7%              |
|   | -----     |           |           |                    |                    |
| Total revenue                                 | \$898,873 | \$536,941 | \$377,502 | 67.4%              | 42.2%              |
| =====   |           |           |           |                    |                    |

### NET PRODUCT SALES:

2006 COMPARED TO 2005: REVLIMID(R) net sales recorded in 2005 related to initial stocking at certain contracted pharmacies following the product's approval on December 27, 2005. REVLIMID(R) net sales grew consistently each quarter in 2006 driven primarily by the additional approval in June 2006 for treatment in combination with dexamethasone of patients with multiple myeloma who have received at least one prior therapy. Also contributing to the 2006 sales growth was the impact of transitioning patients from our expanded access program, which provided patients with free access to REVLIMID(R), to commercial paying patients. Multiple myeloma accounted for approximately 56% of all commercial dispenses during 2006, followed by MDS, which accounted for approximately 38% of all commercial dispenses, and a broad range of other cancer indications accounted for the remaining commercial dispenses. In Europe, we have made REVLIMID(R) available under a Named Patient Program, or NPP,

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which offers European patients in need access to REVLIMID(R) on a compassionate use basis while the European Medicines Agency, or EMEA, reviews our application seeking approval to market REVLIMID(R) as a treatment for multiple myeloma and MDS. NPP sales totaled 7.8% of total REVLIMID(R) net sales during 2006. We expect continued incremental benefit from the named patient sales leading up to a potential European approval in 2007.

Supported by the FDA's approval of newly diagnosed multiple myeloma and newly presented data, THALOMID(R) net sales were higher in 2006, compared to 2005. Price increases implemented as we continue to move towards a cost of therapy pricing structure as opposed to a price per milligram basis also contributed to the increase. Sales volumes decreased due to continued average daily dose declines as well as a small decrease in the total number of prescriptions.



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Partially offsetting the increase in THALOMID(R) sales were higher gross to net sales accruals for sales returns and distributor chargebacks, partially offset by lower Medicaid rebate accruals, which are recorded based on historical data.

ALKERAN(R) net sales were slightly higher in 2006, compared to 2005. ALKERAN(R) sales benefited from an increase in ALKERAN(R) tablet sales volumes, as well as price increases implemented during 2006, particularly in ALKERAN(R) IVs (i.e., injectables). Largely offsetting the increase in sales were higher gross to net sales accruals for sales returns and distributor chargebacks.

Sales of FOCALIN(TM), which is sold exclusively to Novartis and is dependent on the timing of orders from Novartis for their commercial distribution, were higher in 2006, compared to 2005, due to increased end-market demand.

2005 COMPARED TO 2004: THALOMID(R) net sales were higher in 2005, as compared to 2004, primarily due to price increases implemented as we moved towards a cost of therapy pricing structure as opposed to a price per milligram. Sales volumes decreased due to lower average daily doses; however, the total number of prescriptions for 2005 remained essentially flat when compared to the prior year period. Partially offsetting the increase in THALOMID(R) sales were higher gross to net sales accruals for sales returns, Medicaid rebates and distributor chargebacks, which are recorded based on historical data.

Focalin(TM) net sales, which are dependent on the timing of orders from Novartis for their commercial distribution, were essentially flat when compared to the prior year period. ALKERAN(R) net sales were higher in 2005, as compared to 2004, due to price increases implemented during 2005 and an increase in sales volumes.

ALKERAN(R) use in combination therapies for the treatment of hematological diseases continued to grow driven by clinical data reported at major medical conferences around the world. Also contributing to the increase in ALKERAN(R) sales volumes was the resolution of supply disruptions experienced in 2004, which resolution led to more consistent supplies of ALKERAN(R) for injection and consequently more consistent end-market buying patterns.

REVLIMID(R) was approved by the FDA on December 27, 2005 and the first commercial sales were recorded relating to initial stocking at certain contracted pharmacies that were registered under the RevAssist(R) program.

GROSS TO NET SALES ACCRUALS: We record gross to net sales accruals for sales returns, sales discounts, Medicaid rebates and distributor charge-backs and service fees. Allowance for sales returns are based on the actual returns history for consumed lots and the trend experience for lots where product is still being returned. Sales discounts accruals are based on payment terms extended to customers. Medicaid rebate accruals are based on historical payment data and estimates of future Medicaid beneficiary utilization. Distributor charge-back 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

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qualified programs. Distributor services accruals are based on contractual fees to be paid to the wholesale distributor for services provided. See Critical Accounting Policies for further discussion.

Gross to net sales accruals and the balance in the related allowance accounts for the years ended December 31, 2006, 2005 and 2004 were as follows:

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| (IN THOUSANDS \$)                         | Returns<br>and<br>allowances | Discounts | Medicaid<br>rebates | Distributor<br>chargebacks<br>and service |
|---|------------------------------|-----------|---------------------|---|
| Balance at December 31, 2003              | \$ 8,368                     | \$ 657    | \$ 4,200            | \$ 889                                    |
| Allowances for sales during 2004          | 16,279                       | 7,420     | 15,780              | 14,976                                    |
| Allowances for sales during prior periods | --                           | 28        | --                  | --  |
| Credits issued for prior year sales       | (6,221)                      | (685)     | (2,880)             | (607)                                     |
| Credits issued for sales during 2004      | (8,826)                      | (6,583)   | (11,566)            | (11,537)                                  |
| Balance at December 31, 2004              | \$ 9,600                     | \$ 837    | \$ 5,534            | \$ 3,721                                  |
| Allowances for sales during 2005          | 19,476                       | 10,948    | 35,009              | 35,926                                    |
| Allowances for sales during prior periods | 1,780                        | --        | 89                  | --  |
| Credits issued for prior year sales       | (11,380)                     | (834)     | (5,623)             | (3,264)                                   |
| Credits issued for sales during 2005      | (14,459)                     | (9,504)   | (14,049)            | (29,605)                                  |
| Balance at December 31, 2005              | \$ 5,017                     | \$ 1,447  | \$ 20,960           | \$ 6,778                                  |
| Allowances for sales during 2006          | 23,944                       | 18,847    | 22,353              | 57,750                                    |
| Allowances for sales during prior periods | 30,607                       | 34        | --                  | --  |
| Credits issued for prior year sales       | (35,624)                     | (1,481)   | (20,357)            | (6,315)                                   |
| Credits issued for sales during 2006      | (14,464)                     | (16,551)  | (15,488)            | (47,580)                                  |
| Balance at December 31, 2006              | \$ 9,480                     | \$ 2,296  | \$ 7,468            | \$ 10,633                                 |

2006 COMPARED TO 2005: Sales returns allowances increased in 2006, compared to 2005, primarily due to unusually high THALOMID(R) returns from one specific large retail pharmacy chain, which occurred during the first half of 2006. The returns from this customer were the results of its efforts to more aggressively manage inventory, our package configuration which required pharmacies to purchase full cartons of up to ten sleeves of THALOMID(R) capsules with each order and S.T.E.P.S. (R) related restrictions, which limited the customer's ability to transfer inventories between its locations. For the past several years, we have experienced sales returns of approximately 4% of sales. As a result of the higher returns activity during the first half of 2006, we recorded additional allowances to increase our reserve to approximately 9% of all estimated THALOMID(R) pharmacy inventories. In addition, we introduced single sleeve units, beginning June 7, 2006 (rather than requiring full carton purchases) and we amended our product returns policy to include a product returns handling fee. These measures have been designed to allow customers to more effectively manage their inventories, since they can now order smaller quantities, as well as limit our product returns exposure. Also, contributing to the increase in sales returns allowances, but to a lesser extent, were higher returns of expired ALKERAN(R) IV product.

Sales discounts increased in 2006, compared to 2005, due to higher net sales. Medicaid rebate allowances decreased in 2006, compared to 2005, primarily due to the impact of the new Medicare, Part D legislation, which became effective January 1, 2006. As a result of the new legislation many patients who had been eligible to receive THALOMID(R) through Medicaid coverage are now covered under Medicare, Part D. Partially offsetting the THALOMID(R) decrease are Medicaid rebate allowances included in 2006 for REVLIMID(R) sales. Distributor chargebacks increased in 2006, compared to 2005, primarily due to THALOMID(R) price increases, which increase the differential between annual contract pricing available to federally funded healthcare providers and our wholesale acquisition cost. Also contributing to the increase in distributor chargeback allowances was an increase in ALKERAN(R) IV sales to certain public health services, or PHS,

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contract eligible customers and an inclusion of accruals for REVLIMID(R) sales.

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2005 COMPARED TO 2004: Sales returns and sales discounts allowances increased in 2005, compared to 2004, primarily due to higher net sales. Medicaid rebate and distributor chargeback accruals increased in 2005, compared to 2004, due to higher sales volumes and price increases. As a result of THALOMID(R) price increases, the Medicaid unit rebate amount for 2005 increased as a percentage of gross product sales, as compared to the accrual for 2004. As in the case of Medicaid rebate accruals, the THALOMID(R) price increases resulted in higher distributor chargeback accruals in 2005, as compared to 2004.

### OTHER REVENUES:

2006 COMPARED TO 2005: Revenues from collaborative agreements and other sources totaled \$18.2 million in 2006, compared to \$41.3 million in 2005. The decrease was primarily due to the inclusion in 2005 of a \$20.0 million milestone payment received from Novartis relating to the FDA marketing approval for Focalin XR(TM).

Royalty revenue totaled \$69.1 million in 2006 and primarily consisted of \$67.3 million received from Novartis on sales of their entire family of Ritalin(R) drugs and FOCALIN XR(TM). Royalty revenue was \$50.0 million in 2005 and included \$48.5 million from sales of Novartis' Ritalin(R) family of drugs and FOCALIN XR(TM). Royalty revenues from Novartis increased primarily due to higher FOCALIN XR(TM) product sales.

2005 COMPARED TO 2004: Revenues from collaborative agreements and other sources totaled \$41.3 million in 2005, compared to \$20.0 million in 2004. The increase was primarily due to a \$20.0 million milestone payment from Novartis reflected in 2005 for the FOCALIN XR(TM) approval while, in 2004, we received a \$7.5 million milestone payment related to the FOCALIN XR(TM) NDA submission. Also contributing to the increase were higher Pharmion collaboration related revenues in 2005.

Royalty revenue totaled \$50.0 million in 2005 and included \$48.5 million from sales of Novartis' Ritalin(R) family of drugs and FOCALIN XR(TM), which gained FDA approval on May 27, 2005. Royalty revenue was \$26.9 million in 2004 and consisted primarily of royalties received from Novartis strictly on sales of their RITALIN(R) family of drugs.

COST OF GOODS SOLD: Cost of goods sold and related percentages for the years ended December 31, 2006, 2005 and 2004 were as follows:

| (IN THOUSANDS \$)                   | 2006       | 2005      | 2004      |
|-------------------------------------|------------|-----------|-----------|
| Cost of goods sold                  | \$ 125,892 | \$ 80,727 | \$ 59,726 |
| Increase from prior year            | \$ 45,165  | \$ 21,001 | \$ 6,776  |
| Percentage increase from prior year | 55.9%      | 35.2%     | 12.8%     |
| Percentage of net product sales     | 15.5%      | 18.1%     | 18.1%     |

2006 COMPARED TO 2005: Cost of goods sold were higher in 2006, compared to 2005, primarily due to higher ALKERAN(R) costs. ALKERAN(R) costs tend to experience

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variability depending on the purchase price of the specific units sold during a given period. Also contributing to the increase in cost of goods sold were higher royalties on THALOMID(R) as a result of higher net sales and the inclusion of costs associated with REVLIMID(R) sales. Cost of goods sold as a percentage of net product sales were lower in 2006, compared to 2005 primarily due to the impact of REVLIMID(R) sales, which have a lower per unit cost than THALOMID(R), partially offset by higher ALKERAN(R) costs.

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2005 COMPARED TO 2004: Cost of goods sold were higher in 2005, as compared to 2004, primarily due to higher royalties on THALOMID(R) net sales and higher ALKERAN(R) costs as a result of higher sales volumes. As a percentage of net product sales, cost of goods sold in 2005 were in line with 2004.

RESEARCH AND DEVELOPMENT: Research and development expenses and related percentages for the years ended December 31, 2006, 2005 and 2004 were as follows:

| (IN THOUSANDS \$)                   | 2006       | 2005       | 2004       |
|-------------------------------------|------------|------------|------------|
| Research and development expenses   | \$ 258,621 | \$ 190,834 | \$ 160,852 |
| Increase from prior year            | \$ 67,787  | \$ 29,982  | \$ 38,152  |
| Percentage increase from prior year | 35.5%      | 18.6%      | 31.1%      |
| Percentage of total revenue         | 28.8%      | 35.5%      | 42.6%      |

2006 COMPARED TO 2005: Research and development expenses were higher in 2006, compared to 2005, primarily due to higher clinical research and development expenses, which among other things support multiple programs evaluating REVLIMID(R) and other IMiDs(R) across a broad range of hematological cancers, including multiple myeloma, MDS, chronic lymphocytic leukemia, non-Hodgkin's lymphoma, myelofibrosis and hemoglobinopathies; higher medical information and education expenses, which support educating and training the medical community on hematological cancers such as multiple myeloma and MDS; and higher expenses to support ongoing development of other compounds such as CC-4047, CC-11006, CC-10004, CC-11050 as well as our kinase and ligase inhibitor programs and placental-derived stem cell program. Included in 2006 was share-based compensation expense of \$12.7 million resulting from the application of SFAS 123R, which became effective January 1, 2006.

2005 COMPARED TO 2004: Research and development expenses were higher in 2005, as compared to 2004, primarily due to higher costs to support further clinical development and regulatory advancement of REVLIMID(R) Phase II and Phase III programs in myelodysplastic syndromes and multiple myeloma, including the ongoing pivotal Phase III MDS deletion 5q trial to support our MAA seeking approval to market REVLIMID(R) in Europe.

Research and development expenses in 2006 consisted of \$95.4 million spent on human pharmaceutical clinical programs; \$109.1 million spent on other pharmaceutical programs, including toxicology, analytical research and development, drug discovery, quality and regulatory affairs; \$40.8 million spent on biopharmaceutical discovery and development programs; and \$13.3 million spent on placental stem cell and biomaterials programs. These expenditures support ongoing clinical progress in multiple proprietary development programs for REVLIMID(R) and THALOMID(R), and for other compounds such as: CC-10004, our lead

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anti-inflammatory compound that inhibits PDE-4, which results in the inhibition of multiple proinflammatory mediators such as TNF-[alpha] and, which is currently being evaluated in Phase II clinical trials in the treatment of psoriasis and psoriatic arthritis; CC-4047, CC-11006 and CC-11050 which are currently either being evaluated in healthy volunteer Phase I clinical trials or for which Phase II clinical trials are planned or ongoing; and our kinase and ligase inhibitor programs as well as the placental stem cell program. In 2005, we spent \$73.9 million on human pharmaceutical clinical programs; \$69.1 million on other pharmaceutical programs; \$36.9 million on biopharmaceutical discovery and development programs; and \$10.9 million on placental stem cell and biomaterials programs. In 2004, we spent \$67.0 million on human pharmaceutical clinical programs; \$44.7 million on other human pharmaceutical programs; \$40.6 million on biopharmaceutical discovery and development programs; and \$8.6 million on placental stem cell and biomaterials programs.

As total revenue increases, research and development expense may continue to decrease as a percentage of total revenue, however the actual dollar amount may continue to increase as earlier stage compounds

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are moved through the preclinical and clinical stages. Due to the significant risk factors and uncertainties inherent in preclinical tests and clinical trials associated with each of our research and development projects, the cost to complete such projects can vary. The data obtained from these tests and trials may be susceptible to varying interpretation that could delay, limit or prevent a project's advancement through the various stages of clinical development, which would significantly impact the costs incurred to bring a project to completion.

For information about the commercial and development status and target diseases of our drug compounds, refer to the product overview table contained in Part I, Item I of this Annual Report.

SELLING, GENERAL AND ADMINISTRATIVE: Selling, general and administrative expenses and related percentages for the years ended December 31, 2006, 2005 and 2004 were as follows:

| (IN THOUSANDS \$)                            | 2006       | 2005       | 2004       |
|--|------------|------------|------------|
| Selling, general and administrative expenses | \$ 339,669 | \$ 181,796 | \$ 114,196 |
| Increase from prior year                     | \$ 157,873 | \$ 67,600  | \$ 15,722  |
| Percentage increase from prior year          | 86.8%      | 59.2%      | 16.0%      |
| Percentage of total revenue                  | 37.8%      | 33.9%      | 30.3%      |

2006 COMPARED TO 2005: Selling, general and administrative expenses were higher in 2006, compared to 2005 primarily due to \$62.3 million of share-based compensation expense resulting from the application of SFAS 123R, which became effective January 1, 2006, \$63.8 million of higher commercial expenses related to REVLIMID(R) sales and marketing efforts in the United States, increased spending related to the build-out of our international organization and

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contributions to independent non-profit third-party foundations and \$30.5 million of higher general administrative expenses primarily related to personnel and professional and other outside service costs.

2005 COMPARED TO 2004: Selling, general and administrative expenses were higher in 2005, as compared to 2004, primarily due to the inclusion in 2005 of approximately \$40.0 million of REVLIMID(R) pre-launch commercial expenses, such as global market research, marketing and educational programs and sales and marketing training and an increase of approximately \$22.7 million in general administrative expenses resulting from higher professional and other miscellaneous outside service fees, higher personnel-related expenses, higher facility-related expenses and higher insurance costs, partially offset by lower THALOMID(R) and ALKERAN(R) related marketing expenses. Included in selling, general and administrative expenses in 2005 was \$2.5 million of expense related to accelerated depreciation of leasehold improvements at four New Jersey locations being consolidated into our new corporate headquarters.

INTEREST AND INVESTMENT INCOME, NET: Interest and investment income, net increased \$15.8 million in 2006, compared to 2005. The increase was due to higher average cash, cash equivalents and marketable securities balances, an increase in net realized gains from the sale of certain marketable securities and higher short-term interest rates. Included in 2006 and 2005 were other-than-temporary impairment losses on marketable securities available for sale of \$3.8 million and \$3.1 million, respectively. Interest and investment income, net decreased \$3.8 million in 2005, compared to 2004 primarily due to the inclusion of the other-than-temporary impairment loss on marketable securities available for sale of \$3.1 million in 2005.

EQUITY IN LOSSES OF AFFILIATED COMPANIES: Under the equity method of accounting, we recorded losses of \$8.2 million in 2006, which included \$6.8 million for our share of EntreMed losses. In 2005, we recorded equity method losses of \$6.9 million, which included \$1.6 million for our share of EntreMed losses and a

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charge of \$4.4 million to write-down the value of the EntreMed investment ascribed to in-process research and development.

INTEREST EXPENSE: Interest expense was \$9.4 million, \$9.5 million and \$9.6 million in 2006, 2005 and 2004, respectively, and primarily reflects interest expense and amortization of debt issuance costs on the \$400 million convertible notes issued on June 3, 2003.

OTHER INCOME (EXPENSE), NET: Other income (expense), net was \$5.5 million of income in 2006 and included foreign exchange gains of \$5.5 million. Other income (expense), net was \$7.5 million of expense in 2005 and primarily consisted of unrealized losses of \$6.9 million for changes in the estimated value of our investment in EntreMed, Inc. warrants. Other income (expense), net was \$1.7 million of income in 2004 and primarily consisted of \$3.6 million of foreign exchange and other miscellaneous net gains, partially offset by an unrealized loss of \$1.9 million for changes in the estimated value of our investment in EntreMed, Inc. warrants.

INCOME TAX PROVISION: The income tax provision for 2006 was \$133.9 million and reflects tax expense impacted by certain expenses incurred in taxing jurisdictions outside the United States for which we do not presently receive a tax benefit and nondeductible expenses which include share-based compensation expense related to incentive stock options. The income tax provision for 2005 was \$20.6 million and reflects tax expense impacted by certain expenses incurred outside the United States under an incentive tax holiday that expires in 2015

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for which no tax benefit can be recorded. This was partially offset by the benefit from the elimination of valuation allowances totaling \$42.6 million as of March 31, 2005, which was based on the fact that we determined it was more likely than not that certain benefits of our deferred tax assets would be realized. The income tax provision for 2004 was \$10.4 million.

NET INCOME: Net income and per common share amounts for the years ended December 31, 2006, 2005 and 2004 were as follows:

| (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | 2006       | 2005       | 2004      |
|--|------------|------------|-----------|
| Net income                               | \$ 68,981  | \$ 63,656  | \$ 52,756 |
| Per common share amounts:                |            |            |           |
| Basic                                    | \$ 0.20    | \$ 0.19    | \$ 0.16   |
| Diluted                                  | \$ 0.18(1) | \$ 0.18(1) | \$ 0.15   |
| Weighted average shares:                 |            |            |           |
| Basic                                    | 352,217    | 335,512    | 327,738   |
| Diluted                                  | 407,181    | 390,585    | 345,710   |

Amounts have been adjusted for the two-for-one stock splits effected in February 2006 and October 2004.

(1) In computing diluted earnings per share, the numerator has been adjusted to add-back the after-tax amount of interest expense recognized in the year on our convertible debt.

2006 COMPARED TO 2005: Net income was higher in 2006, compared to 2005, primarily due to an increase in total revenues partially offset by \$76.6 million of share-based compensation expense resulting from the application of SFAS 123R, which became effective January 1, 2006, inclusion in the 2005 period of the one-time benefit of \$42.6 million recognized from the elimination of deferred tax asset valuation allowances and higher operating expenses in 2006.

2005 COMPARED TO 2004: Net income and per common share amounts were higher in 2005, as compared to 2004, primarily due to an increase in total revenues partially offset by higher operating expenses and other expenses recorded for changes in the estimated value of our investment in EntreMed, Inc. warrants,

other-than-temporary impairment write-downs on available for sale securities and our share of equity losses of EntreMed, Inc.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating, investing and financing activities for the years ended December 31, 2006, 2005 and 2004 were as follows:

| (IN THOUSANDS \$) | 2006 | 2005 | 2004 | INCREASE (DECREASE) |              |
|-------------------|------|------|------|---------------------|--------------|
|                   |      |      |      | 2005 TO 2006        | 2004 TO 2005 |
|                   |      |      |      |                     |              |

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|   |             |              |             |             |        |
|---|-------------|--------------|-------------|-------------|--------|
| Net cash provided by operating activities           | \$ 83,561   | \$ 41,917    | \$ 155,939  | \$ 41,644   | \$ (11 |
| Net cash provided by (used in) investing activities | \$ 6,784    | \$ (103,131) | \$ (92,636) | \$ 109,915  | \$ (1  |
| Net cash provided by financing activities           | \$1,221,246 | \$ 52,631    | \$ 16,002   | \$1,168,615 | \$ 3   |
| =====   |             |              |             |             |        |

OPERATING ACTIVITIES: Net cash provided by operating activities increased in 2006, as compared to 2005, primarily due to higher earnings, excluding the effects of certain non-cash items including share-based compensation expense totaling \$76.6 million recorded in 2006 in connection with our application of SFAS 123R beginning January 1, 2006, and lower income taxes paid in 2006, partially offset by higher working capital levels associated with the growth of our business and SFAS 123R requirements to classify excess tax benefits (i.e., the tax benefit recognized upon exercise of stock options in excess of the benefit recognized from recognizing compensation cost for those options) as financing cash flows in the Consolidated Statement of Cash Flows beginning in 2006. See working capital discussion below.

INVESTING ACTIVITIES: Net cash provided by investing activities in 2006 included \$77.8 million from net sales of available-for-sale marketable securities, partially offset by \$46.1 million of capital expenditures; \$12.4 million for the purchase of an API manufacturing facility from Siegfried Ltd.; \$7.4 million for investments in affiliated companies and \$5.1 million for an investment in other non-marketable securities. Net cash used in investing activities in 2005 included \$35.9 million of capital expenditures; \$7.2 million for acquisition costs and working capital adjustments related to the October 2004 acquisition of Penn T; \$49.5 million for net purchases of available-for-sale marketable securities; and \$10.5 million from the exercise of warrants to purchase 7,000,000 shares of EntreMed common stock. Capital expenditures increased in 2006, compared to 2005, primarily due to the construction of a drug product manufacturing facility at our Neuchatel, Switzerland site and expansion of our corporate headquarters in Summit, New Jersey.

FINANCING ACTIVITIES: Net cash provided by financing activities in 2006 included \$1.006 billion from our November 2006 public offering wherein we issued an additional 20,000,000 shares of our common stock at a public offering price of \$51.60 per share. Prior to the adoption of SFAS 123R, we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statement of Cash Flows. SFAS 123R requires excess tax benefits (i.e., the tax benefit recognized upon exercise of stock options in excess of the benefit recognized from recognizing compensation cost for those options) to be classified as financing cash flows in the Consolidated Statement of Cash Flows. Cash received from the exercise of employee stock options in 2006 was \$113.1 million and the excess tax benefit recognized was \$102.0 million. Net cash provided by financing activities in 2005 primarily reflects cash received from the exercise of employee stock options.

WORKING CAPITAL AND CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES: Working capital and cash, cash equivalents and marketable securities for the years ended December 31, 2006, 2005 and 2004 were as follows:



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| (IN THOUSANDS \$)                                    | 2006        | 2005       | INCREASE<br>(DECREASE) |
|--|-------------|------------|------------------------|
|  |             |            | 2005<br>TO<br>2006     |
| Cash, cash equivalents and marketable securities     | \$1,982,220 | \$ 724,260 | \$1,257,960            |
| Other current assets and current liabilities, net(1) | 8,749       | 6,354      | 2,395                  |
| Net working capital                                  | \$1,990,969 | \$ 730,614 | \$1,260,355            |

(1) Includes accounts receivable, net of allowances, inventory, other current assets, accounts payable, accrued expenses, income taxes payable and other current liabilities.

ACCOUNTS RECEIVABLE, NET: Accounts receivable, net as of December 31, 2006 increased \$49.9 million from December 31, 2005 as a result of higher net sales. Our days of sales outstanding, or DSO, as of December 31, 2006 improved by approximately nine days compared to December 31, 2005. The decrease in our DSO was primarily due to the collection of accounts receivables of certain large customers.

INVENTORY: Inventory as of December 31, 2006 increased \$5.1 million from December 31, 2005 primarily due to increases in THALOMID(R) and REVLIMID(R) inventories partially offset by a decrease in ALKERAN(R) inventory. REVLIMID(R) and THALOMID(R) inventories increased as a result of the introduction of new formulations and packaging configurations to support the products' continued sales growth. ALKERAN(R) inventories tend to fluctuate depending on the purchase price of the specific units purchased during a given period.

OTHER CURRENT ASSETS: Other current assets as of December 31, 2006 increased \$50.3 million from December 31, 2005 primarily due to an increase in prepaid expenses and in the amounts due from Novartis under the FOCALIN(R) license agreement. Prepaid expenses increased primarily due to inclusion of \$31.6 million of prepaid taxes.

ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES: Accounts payable, accrued expenses and other current liabilities as of December 31, 2006 increased \$32.8 million from December 31, 2005 primarily due to increases in accruals for management incentives, distributor chargebacks and sales returns.

INCOME TAXES PAYABLE: Income taxes payable increased \$70.1 million during 2006 primarily from a current provision for income taxes of \$189.4 million offset by a tax benefit on stock option exercises of \$125.5 million.

CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES: We invest our excess cash primarily in money market funds and in highly liquid debt instruments of U.S. municipalities, corporations, and the U.S. government and its agencies. All investments with maturities of three months or less from the date of purchase are classified as cash equivalents and all highly liquid investments with maturities of greater than three months from the date of purchase are classified as marketable securities. We determine the appropriate classification of our investments in marketable debt and equity securities at the time of purchase. The increase in cash, cash equivalents and marketable securities from December 31, 2005 to December 31, 2006 was primarily due to \$1.006 billion provided from our November 2006 public offering.

We expect to make substantial additional expenditures to further develop and commercialize our products. We expect increased research and product development costs, clinical trial costs, expenses associated with the regulatory approval process, international expansion costs and commercialization of product costs and capital investments. However, existing cash, cash equivalents and marketable securities available for sale, combined with cash received from expected net product sales and revenues from various research, collaboration and royalties agreements, are expected to provide sufficient capital resources to fund our operations for the foreseeable future.

#### CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of December 31, 2006:

| (IN MILLIONS \$)                    | PAYMENT DUE BY PERIOD |           |           |                      | TOT     |
|-------------------------------------|-----------------------|-----------|-----------|----------------------|---------|
|                                     | LESS THAN<br>1 YEAR   | 1-3 YEARS | 3-5 YEARS | MORE THAN<br>5 YEARS |         |
| Convertible note obligations        | \$ --                 | \$399.9   | \$ --     | \$ --                | \$399.9 |
| Operating leases                    | 5.8                   | 10.1      | 8.7       | 5.3                  | 29.9    |
| ALKERAN(R) supply agreements        | 29.1                  | 38.2      | --        | --                   | 67.3    |
| Manufacturing facility note payable | 3.4                   | 6.7       | 6.7       | 16.4                 | 33.2    |
| Other contract commitments          | 24.2                  | 6.7       | --        | --                   | 30.9    |
|                                     | \$ 62.5               | \$461.6   | \$ 15.4   | \$ 21.7              | \$561.2 |

**CONVERTIBLE DEBT:** In June 2003, we issued an aggregate principal amount of \$400.0 million of unsecured convertible notes. The convertible notes have a five-year term and a coupon rate of 1.75% payable semi-annually. The convertible notes can be converted at any time into 33,014,519 shares of common stock at a stock-split adjusted conversion price of \$12.1125 per share. At December 31, 2006, the fair value of the convertible notes exceeded the carrying value of \$400.0 million by \$1.507 billion (for more information see Note 9 of the Notes to the Consolidated Financial Statements).

**OPERATING (FACILITIES) LEASES:** We lease office and research facilities under various operating lease agreements in the United States, Europe, Japan and Australia. At December 31, 2006, the non-cancelable lease terms for the operating leases expire at various dates between 2007 and 2015 and include renewal options. In general, we are also required to reimburse the lessors for real estate taxes, insurance, utilities, maintenance and other operating costs associated with the leases. For more information on the facilities that we occupy under lease arrangements that have remaining lease terms greater than one-year see Part I, Item 2, "Properties."

**ALKERAN(R) PURCHASE COMMITMENT:** In March 2003, we entered into a supply and distribution agreement with GlaxoSmithKline, or GSK, to distribute, promote and sell ALKERAN(R) (melphalan), a therapy approved by the FDA for the palliative treatment of multiple myeloma and carcinoma of the ovary. Under the terms of the

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agreement, we purchase ALKERAN(R) tablets and ALKERAN(R) for infusion from GSK and distribute the products in the United States under the Celgene label. The agreement requires us to purchase certain minimum quantities each year under a take-or-pay arrangement. The agreement has been extended through March 31, 2009. On December 31, 2006, the remaining minimum purchase requirements under the agreement totaled \$67.3 million.

**MANUFACTURING FACILITY NOTE PAYABLE:** In December 2006, we purchased an API manufacturing facility and certain other assets and liabilities from Siegfried located in Zofingen, Switzerland. The assets were purchased for a U.S. dollar equivalency of approximately \$46.0 million, consisting of a payment of

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approximately \$12.4 million at the closing, \$3.4 million payable in each of the first five following years and \$3.3 million in each of the subsequent five years. The transaction included a technical service agreement which will allow us to retain the necessary support to operate the plant. At December 31, 2006, the remaining commitment based on year-end exchange rates was a U.S. dollar equivalency of approximately \$33.2 million of which payments totaling \$16.4 million due over years 6 to 10 are forgiven if, pursuant to our right, we elect to sell the facility back to Siegfried during this period.

**OTHER CONTRACT COMMITMENTS:** In connection with the acquisition of Penn T on October 21, 2004, we entered into a five-year minimum period Technical Services Agreement with Penn Pharmaceutical Services Limited, or PPSL, and Penn Pharmaceutical Holding Limited under which PPSL provides the services and facilities necessary for the manufacture of THALOMID(R) and other thalidomide formulations. At December 31, 2006, the remaining cost to be incurred was approximately \$6.7 million.

In October 2006, we invested \$1.4 million in Burrill Life Sciences Capital Fund III, a limited partnership. We have committed to investing an additional \$18.6 million into the Fund over a ten-year period, which is callable at any time. For more information see Note 17 of the Notes to the Consolidated Financial Statements included in this Annual Report.

Other contract commitments at December 31, 2006 also includes \$5.6 million of various contractual obligations.

### NEW ACCOUNTING PRINCIPLES

In June 2006, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109." This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standard, or SFAS, No. 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As the provisions of FIN 48 will be applied to all tax positions upon initial adoption, the cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. This Interpretation is effective for us beginning January 1, 2007. We are in the process of analyzing the impact of this Interpretation and do not believe it will have a material impact on our results of operations. However, we do expect to make certain balance sheet reclassifications to comply with FIN 48.

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Where applicable, this Statement simplifies and codifies related guidance within generally accepted accounting principles (GAAP). This accounting standard is effective for us beginning January 1, 2008. We have not yet determined the effect, if any, the adoption of FAS 157 may have on the our consolidated financial statements.

In February 2006 the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140," which permits a fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation. This accounting standard is effective for us beginning January 1, 2007. We have not yet determined the effect, if any, the adoption of FAS 155 may have on our financial position and results of operations.

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In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements," or SAB 108, which provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 provides for the quantification of the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. SAB 108 is effective for fiscal years ending on or after November 15, 2006. We adopted the provisions of SAB 108 retroactive to January 1, 2006 and determined that it had no impact on our financial statements for the year ended December 31, 2006.

### CRITICAL ACCOUNTING POLICIES

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. While our significant accounting policies are more fully described in Note 1 of the Notes to the Consolidated Financial Statements included in this Annual Report, we believe the following accounting policies to be critical:

**REVENUE RECOGNITION ON COLLABORATION AGREEMENTS:** We have formed collaborative research and development agreements and alliances with several pharmaceutical companies. These agreements are in the form of research and development and license agreements. The agreements call for nonrefundable upfront payments, milestone payments on achieving significant milestone events, and in some cases ongoing research funding. The agreements also contemplate royalty payments on sales if and when the compound receives FDA marketing approval.

Our revenue recognition policies for all nonrefundable upfront license fees and milestone arrangements are in accordance with the guidance provided in the Securities and Exchange Commission's Staff Accounting Bulletin, or SAB, No. 101, "Revenue Recognition in Financial Statements," as amended by SAB No. 104, "Revenue Recognition," or SAB 104. In addition, we follow the provisions of Emerging Issues Task Force, or EITF, Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," or EITF 00-21, for multiple element revenue arrangements entered into or materially amended after June 30, 2003. EITF 00-21 provides guidance on how to determine when an arrangement that involves multiple revenue-generating activities or deliverables should be divided into separate units of accounting for revenue recognition purposes, and if this division is

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required, how the arrangement consideration should be allocated among the separate units of accounting. If the deliverables in a revenue arrangement constitute separate units of accounting according to the EITF's separation criteria, the revenue-recognition policy must be determined for each identified unit. If the arrangement is a single unit of accounting, the revenue-recognition policy must be determined for the entire arrangement.

Under arrangements where the license fees and research and development activities can be accounted for as a separate unit of accounting, nonrefundable upfront license fees are deferred and recognized as revenue on a straight-line basis over the expected term of our continued involvement in the research and development process. Revenues from the achievement of research and development milestones, if deemed substantive, are recognized as revenue when the milestones are achieved, and the milestone payments are due and collectible. Milestones are considered substantive if all of the following conditions are met: (1) the milestone is nonrefundable; (2) achievement of the milestone was not reasonably assured at the inception of the arrangement; (3) substantive effort is involved to achieve the milestone; and, (4) the amount of the milestone appears reasonable in relation to the effort expended, the other milestones in the arrangement and the related risk associated with achievement of the milestone. If any of these conditions are not met, we would recognize a proportionate amount of the milestone payment upon

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receipt as revenue that correlates to work already performed and the remaining portion of the milestone payment will be deferred and recognized as revenue as we complete our performance obligations.

### GROSS TO NET SALES ACCRUALS FOR SALES RETURNS, MEDICAID REBATES AND CHARGEBACKS:

Our gross to net sales accruals for Sales Returns, Medicaid Rebates and Chargebacks are based on our sales. THALOMID(R) is distributed under our S.T.E.P.S.(R), or System for Thalidomide Education and Prescribing Safety, distribution program. Among other things, S.T.E.P.S.(R), which is a proprietary comprehensive education and risk-management distribution program, requires prescribers, patients and dispensing pharmacies to participate in a registry and an order cannot be filled unless the physician, patient and pharmacy have all obtained an appropriate registration number. Automatic refills are not permitted under the program. Each prescription may not exceed a 28-day supply and a new prescription is required with each order.

Although we invoice through traditional pharmaceutical wholesalers, all THALOMID(R) orders are drop-shipped directly to the prescribing pharmacy overnight. Wholesaler stocking of this product is prohibited. In addition, we do not offer commercial discounts on our products to pharmacies or hospitals and, therefore, have no commercial distributor chargebacks. Our chargebacks result from the difference between the wholesaler price and the lower federal ceiling price available to federally funded healthcare providers, such as Veterans Affairs and the U.S. Department of Defense.

REVLIMID(R) is distributed under the RevAssist(R) program, which is a proprietary risk-management distribution program tailored specifically to help ensure the safe use of REVLIMID(R), and is sold primarily through contracted pharmacies lending itself to tighter controls of inventory quantities within the supply channel.

SALES RETURNS: We record a sales returns allowance in the period the related product sale is recorded. We base the allowance, which primarily relates to THALOMID(R) sales returns, on actual returns history and known factors, such as the trend experience for lots where product is still being returned. If the

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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. We do not use information from external sources in estimating our product returns. As indicated above, THALOMID(R) is drop-shipped directly to the prescribing pharmacy and, as a result, wholesalers do not stock the product. In addition, since THALOMID(R) has a relatively long shelf life, typically two years, short-dated inventory has not historically been an issue. REVLIMID(R) is distributed primarily through contracted pharmacies lending itself to tighter controls of inventory quantities within the supply channel and thus, resulting in lower returns activity to date.

The impact that external factors such as price changes from competitors and introductions of new and generic competing products could have on our sales returns accruals is highly judgmental and difficult to quantify. Our sales returns have not been impacted thus far by such external factors; however we continue to monitor such factors. Our sales returns allowances were \$54.6 million, \$21.3 million and \$16.3 million in 2006, 2005 and 2004, respectively, which equates to an accrual rate of 5.7%, 3.9% and 4.2% of gross product sales in each of the three respective years. A 10% increase in our returns rate would have resulted in a \$5.5 million decrease in our 2006 reported revenue.

**MEDICAID REBATES:** The Medicaid rebate formula, which is established by the Center for Medicare and Medicaid Services, provides for price increases based on increases in the Consumer Price Index-All Urban Consumers, or CPI-U. Price increases in excess of the allowable increase results in a higher unit

rebate amount, or URA. Our Medicaid rebate accruals are computed using the Medicaid URA, as determined under the Medicaid rebate formula, applied to the estimated Medicaid dispense quantities. Actual Medicaid dispense quantities are reported by individual states on a 45-60 day quarter-end lag. Differences in Medicaid rebate accruals resulting from differences in the estimated Medicaid dispense quantities and actual Medicaid dispense quantities are adjusted in the following period. Medicaid rebate allowances decreased in 2006, compared to 2005, primarily due to the impact of the new Medicare, Part D legislation, which became effective January 1, 2006. As a result of the new legislation many patients who had been eligible to receive THALOMID(R) through Medicaid coverage during the prior year period are now covered under Medicare, Part D. Partially offsetting the THALOMID(R) decrease are Medicaid rebate allowances included in the current year period for REVLIMID(R) sales.

**DISTRIBUTOR CHARGEBACK:** As indicated above, we do not offer commercial discounts on our products to pharmacies or hospitals and, therefore, have no commercial distributor chargebacks. Our distributor chargebacks result from the difference between the wholesaler price and the lower pricing available to federally funded healthcare providers, such as Veteran Affairs and the U.S. Department of Defense. We estimate distributor chargeback allowances at the time of sale based on the pharmacies to which the order was drop-shipped and its eligibility for the lower pricing. Actual chargeback credits claimed by the wholesaler may significantly differ from our accruals. Distributor chargeback allowances relating to THALOMID(R) are more sensitive to price increases and will typically increase as result of differences between annual contract pricing available to

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federally funded healthcare providers and our current wholesale acquisition cost. On the other hand, REVLIMID(R) chargeback allowances are less sensitive to current wholesale acquisition cost price increases due to its relatively recent commercial launch date.

**OTHER GROSS TO NET SALES ACCRUALS:** We record sales discounts accruals based on payment terms extended to customers and we record distributor services accruals based on contractual fees incurred for the wholesale distributor services provided.

**INCOME TAXES:** We utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect for years in which the temporary differences are expected to reverse. We provide a valuation allowance when it is more likely than not that deferred tax assets will not be realized.

Our 2006 effective tax rate is approximately 66%. The effective tax rate exceeds the statutory tax rate primarily due to certain expenses incurred in taxing jurisdictions outside the United States for which we do not presently receive a tax benefit and nondeductible expenses which include share based compensation expense related to incentive stock options. We operate under an incentive tax holiday in Switzerland that expires in 2015 and exempts us from certain Swiss taxes. Likewise, expenses currently being incurred there do not provide a tax benefit. To the extent we receive approvals in markets outside the United States, and manufacture and generate taxable income subject to our Swiss tax holiday, we would expect our effective tax rate to be lower in the future.

At March 31, 2005, we determined it was more likely than not that we will generate sufficient taxable income to realize the benefits of our deferred tax assets and as a result, eliminated certain deferred tax valuation allowances, which resulted in us recording an income tax benefit in 2005 of \$42.6 million and an increase to additional paid-in capital of \$30.2 million. The decision to eliminate the deferred tax valuation allowances was based on an external Independent Data Monitoring Committee's, or IDMC, analyses of two Phase III Special Protocol Assessment multiple myeloma trials and the conclusion that these trials exceeded the pre-specified stopping rule. The IDMC found a statistically significant improvement in time to disease progression -- the primary endpoint of these Phase III trials -- in patients receiving REVLIMID(R) plus dexamethasone compared to patients receiving dexamethasone alone. This,

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in concert with our nine consecutive quarters of profitability, led to the conclusion that it was more likely than not that we will generate sufficient taxable income to realize the benefits of our deferred tax assets.

We periodically evaluate the likelihood of the realization of deferred tax assets, and reduce the carrying amount of these 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 deferred tax assets, including our recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carryforward periods available to us for tax reporting purposes, various income tax strategies and other relevant factors. Significant judgment is required in making this assessment and, to the extent future expectations change, we would have to assess the recoverability of our deferred tax assets at that time. At December 31, 2006, it was more likely than not that we would realize our deferred tax assets, net of valuation allowances.

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**SHARE-BASED COMPENSATION:** We adopted the provisions of SFAS 123R effective January 1, 2006, which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements at their fair values. We adopted SFAS 123R using the modified prospective application method under which the provisions of SFAS 123R apply to new awards and to awards modified, repurchased, or cancelled after the adoption date. We use the Black-Scholes option pricing model to estimate the fair value of options on the date of grant which requires certain estimates to be made by management including the expected forfeiture rate and expected term of the options. Management also makes decisions regarding the method of calculating the expected volatilities and the risk free interest rate used in the model. Fluctuations in the market that affect these estimates could have an impact on the resulting compensation cost. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the adoption date is recognized over the remaining service period after the adoption date (for additional information see Note 13 of the Notes to the Consolidated Financial Statements included in this annual report).

**OTHER-THAN-TEMPORARY IMPAIRMENTS OF AVAILABLE-FOR-SALE MARKETABLE SECURITIES:** A decline in the market value of any available-for-sale marketable security below its cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security established. The determination of whether an available-for-sale marketable security is other-than-temporarily impaired requires significant judgment on our part and requires consideration of available quantitative and qualitative evidence in evaluating the potential impairment. Our marketable securities consist primarily of debt securities whose fair value is affected by interest rate and credit rating changes. The fair value of certain debt securities were negatively impacted by interest rate increases during 2006. If the cost of an investment exceeds its fair value, factors evaluated to determine whether the investment is other-than-temporarily impaired include: significant deterioration in the issuer's earnings performance, credit rating, asset quality, business prospects of the issuer, adverse changes in the general market conditions in which the issuer operates, length of time that the fair value has been below our cost, our expected future cash flows from the security and our intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment. Assumptions associated with these factors are subject to future market and economic conditions, which could differ from our assessment. During 2006 and 2005, we determined that certain securities had sustained other-than-temporary impairments and, as a result, we recognized impairment losses of \$3.8 million and \$3.1 million in 2006 and 2005, respectively, which were recorded in interest and investment income, net.

**INVESTMENT IN AFFILIATED COMPANIES:** Our investment in EntreMed had a carrying value of \$15.3 million and a fair value of \$16.4 million at December 31, 2006. If the carrying value of our investment were to exceed its fair value, we would review it to determine whether an other-than-temporary decline in value of the investment has been sustained. If the investment is determined to have sustained an other-than-temporary decline in value, the investment will be written-down to its fair value. Such an evaluation is

judgmental and dependent on the specific facts and circumstances. Factors that we considered in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis, the period of time that the market value is below cost, the financial condition of the investee and our intent and ability to retain the investment



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for a sufficient period of time to allow for recovery in the market value of the investment. We evaluate information that we are aware of in addition to quoted market prices, if any, in determining whether an other-than-temporary decline in value exists.

ACCOUNTING FOR LONG-TERM INCENTIVE PLANS: We have established a Long-Term Incentive Plan, or LTIP, designed to provide key officers and executives with performance based incentive opportunities contingent upon achievement of pre-established corporate performance objectives covering a three-year period. We currently have three 3-year performance cycles running concurrently ending December 31, 2007, 2008 and 2009. The 2007 performance cycle was approved by the Management Compensation and Development Committee of the Board of Directors on February 2, 2007 and began on January 1, 2007 and will end on December 31, 2009. Performance measures for the Plans are based on the following components in the last year of the 3-year cycle: 25% on earnings per share, 25% on net income and 50% on revenue.

Payouts may be in the range of 0% to 200% of the participant's salary for the 2007, 2008 and 2009 Plans. The estimated payout for the concluded 2006 Plan is \$4.5 million and the maximum potential payout, assuming objectives are achieved at the 200 % level for the 2007, 2008 and 2009 Plans, are \$6.2 million, \$6.4 million and \$7.7 million, respectively. Such awards are payable in cash or, at our discretion, we can elect to pay the same value in our common stock based upon our stock price at the payout date. We accrue the long-term incentive liability over each three-year cycle. Prior to the end of a three-year cycle, the accrual is based on an estimate of our level of achievement during the cycle. Upon a change in control, participants will be entitled to an immediate payment equal to their target award, or, if higher, an award based on actual performance through the date of the change in control. For the years ended December 31, 2006, 2005 and 2004, we recognized expense related to the LTIP of \$4.6 million, \$4.4 million and \$3.4 million, respectively.

Accruals recorded for the LTIP entail making certain assumptions concerning future earnings per share, net income and revenues, the actual results of which could be materially different than the assumptions used. Accruals for the LTIP are reviewed on a regular basis and revised accordingly so that the liability recorded reflects updated estimates of future payouts. In estimating the accruals management considers actual results to date for the performance period, expected results for the remainder of the performance period, operating trends, product development, pricing and competition.

### ITEM 7A. 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 December 31, 2006, our market risk sensitive instruments consisted of marketable securities available for sale, unsecured convertible notes issued by us and our notes payable to Siegfried.

We may periodically utilize foreign currency denominated forward contracts to hedge currency fluctuations of transactions denominated in currencies other than the functional currency. At December

31, 2006, we had one foreign currency forward contract outstanding to sell U.S. dollars and buy British pounds for a notional amount of \$12.1 million. The forward contract expires on March 30, 2007 and is an economic hedge of a U.S. dollar receivable of a U.K. foreign entity, which is remeasured through earnings each period based on changes in the spot rate. At December 31, 2006, the unrealized loss on the forward contract was immaterial. Assuming that the year-end exchange rates between the U.S. dollar and the British pound were to adversely change by a hypothetical ten percent, the change in the fair value of the contract would decrease by approximately \$1.2 million. However, since the contract hedges a U.S. dollar receivable of a U.K. foreign entity, any change in the fair value of the contract would be offset by a change in the underlying value of the hedged item.

MARKETABLE SECURITIES AVAILABLE FOR SALE: At December 31, 2006, our marketable securities available for sale consisted of U.S. treasury securities, government-sponsored agency securities, mortgage-backed obligations, corporate debt securities, other asset-backed securities and 1,939,598 shares of Pharmion Corporation common stock. Marketable securities available for sale are carried at fair value, are held for an indefinite 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, is included in interest and investment income, net. At the end of 2006, we determined that certain securities had sustained an other-than-temporary impairment due to a reduction in their future estimated cash flows and as a result, recognized a \$3.8 million impairment loss, which was recorded in interest and investment income, net.

As of December 31, 2006, 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            |                 |                 |                 | TOTAL     |
|-----------------------|---------------------|-----------------|-----------------|-----------------|-----------|
|                       | LESS THAN 1<br>YEAR | 1 TO 3<br>YEARS | 3 TO 5<br>YEARS | 5 TO 7<br>YEARS |           |
| Principal amount      | \$ 128,447          | \$95,295        | \$266,196       | \$17,400        | \$507,338 |
| Fair value            | \$ 128,453          | \$95,190        | \$253,121       | \$16,116        | \$492,860 |
| Average interest rate | 5.3%                | 5.0%            | 4.6%            | 1.2%            | 4.4%      |

PHARMION COMMON STOCK: At December 31, 2006, we held a total of 1,939,598 shares of Pharmion Corporation common stock, which had an estimated fair value of approximately \$49.9 million (based on the closing price reported by the National Association of Securities Dealers Automated Quotations, or NASDAQ system), and, which exceeded the cost by approximately \$29.7 million. The amount by which the fair value exceeded the cost (i.e., the unrealized gain) was included in Accumulated Other Comprehensive Income in the Stockholders' Equity section of the Consolidated Balance Sheet. The fair value of the Pharmion common stock investment is subject to market price volatility and any increase or decrease in

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Pharmion's common stock quoted market price will have a similar percentage increase or decrease in the fair value of our investment.

CONVERTIBLE DEBT: In June 2003, we issued an aggregate principal amount of \$400.0 million of unsecured convertible notes. The convertible notes have a five-year term and a coupon rate of 1.75% payable semi-annually. The convertible notes can be converted at any time into 33,014,519 shares of common stock at a stock-split adjusted conversion price of \$12.1125 per share (for more information see Note 9 of the Notes to the Consolidated Financial Statements). At December 31, 2006, the fair value of the convertible notes exceeded the carrying value of \$399.9 million by approximately \$1.5 billion, which we believe reflects the increase in the market price of our common stock to \$57.53 per share as of December 31,

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2006. Assuming other factors are held constant, an increase in interest rates generally results in a decrease in the fair value of fixed-rate convertible debt, but does not impact the carrying value, and an increase in our stock price generally results in an increase in the fair value of convertible debt, but does not impact the carrying value.

NOTE PAYABLE: At December 31, 2006, the fair value of our note payable to Siegfried approximated the carrying value of the note of \$25.9 million due to the short period of time since we issued it. Assuming other factors are held constant, an increase in interest rates generally will result in a decrease in the fair value of the note. The fair value of the note will also be effected by changes in the U.S. dollar/Swiss franc exchange rate. The note is denominated in Swiss francs.

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Part IV, Item 15 of this Annual Report.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

### ITEM 9A. CONTROLS AND PROCEDURES

#### CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Annual 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)). 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

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Officer) to allow timely decisions regarding required disclosures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that we are in compliance with Rule 13a-15(e) of the Exchange Act.

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### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of our annual consolidated financial statements, management has undertaken an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO Framework. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2006.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this report, has issued their report on management's assessment of and the effectiveness of internal control over financial reporting as of December 31, 2006, a copy of which is included herein.

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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The Board of Directors and Stockholders  
Celgene Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Celgene Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Celgene Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Celgene Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Also, in our opinion, Celgene Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Celgene Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, cash flows and

stockholders' equity for each of the years in the three-year period ended December 31, 2006, and the related consolidated financial statement schedule, and our report dated February 27, 2007 expressed an unqualified opinion on those consolidated financial statements and related schedule.

/s/ KPMG LLP

Short Hills, New Jersey  
February 27, 2007

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, the information required by Part III (Items 10, 11, 12, 13 and 14) is being incorporated by reference herein from our definitive proxy statement (or an amendment to our Annual Report on Form 10-K) to be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended December 31, 2006 in connection with our 2007 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

See Item 10.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

See Item 10.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

See Item 10.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

See Item 10.

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## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1), (a) (2) See Index to Consolidated Financial Statements and Consolidated Financial Statement Schedule immediately following Signatures and Power of Attorney.

(a) (3) Exhibits

The following exhibits are filed with this report or incorporated by reference:

| EXHIBIT NO. | EXHIBIT DESCRIPTION  |
|-------------|--|
| 1.1         | Underwriting Agreement, dated November 3, 2006, between the Company and Merrill Lynch Pierce, Fenner and Smith Incorporated and J.P. Morgan Securities Inc. as representatives of the several underwriters (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on November 6, 2006). |
| 2.1         | Purchase Option Agreement and Plan of Merger, dated April 26, 2002, among the Company, Celgene Acquisition Corp. and Anthrogenesis Corp. (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-4 dated November 13, 2002 (No. 333-101196)).  |
| 2.2         | Amendment to the Purchase Option Agreement and Plan of Merger, dated September 6, 2002, among the Company, Celgene Acquisition Corp. and Anthrogenesis Corp. (incorporated by reference to Exhibit 2.2 to the Company's Registration Statement on Form S-4 dated November 13, 2002 (No. 333-101196)).                        |
| 2.3         | Asset Purchase Agreement by and between the Company and EntreMed, Inc., dated as of December 31, 2002 (incorporated by reference to Exhibit 99.6 to the Company's Schedule 13D filed on January 3, 2003).  |
| 2.4         | Securities Purchase Agreement by and between EntreMed, Inc. and the Company, dated as of December 31, 2002 (incorporated by reference to Exhibit 99.2 to the Company's Schedule 13D filed on January 3, 2003).   |
| 2.5         | Share Acquisition Agreement for the Purchase of the Entire Issued Share Capital of Penn T Limited among Craig Rennie and Others, Celgene UK Manufacturing Limited and the Company dated October 21, 2004 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated October 26, 2004).     |
| 3.1         | Certificate of Incorporation of the Company, as amended through February 16, 2006 (incorporated by reference to Exhibit 3.1 to the Company' Annual Report on Form 10-K for the year ended December 31, 2005).  |
| 3.2         | Bylaws of the Company (incorporated by reference to Exhibit 2 to the Company's Current Report on Form 8-K, dated September 16, 1996), as amended effective May 1, 2006 (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, for the quarter ended March 31, 2006).                      |

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- 4.1 Rights Agreement, dated as of September 16, 1996, between the Company and American Stock Transfer & Trust Company (incorporated by reference to the Company's Registration Statement on Form 8A, filed on September 16, 1996), as amended on February 18, 2000 (incorporated by reference to Exhibit 99 to the Company's Current Report on Form 8-K filed on February 22, 2000), as amended on August 13, 2003 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 14, 2003).
- 4.2 Indenture dated as of June 3, 2003 between the Company and The Bank of New York, Trustee (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 dated August 14, 2003 (No. 333-107977)).
- 10.1 Purchase and Sale Agreement between Ticona LLC, as Seller, and the Company, as Buyer, relating to the purchase of the Company's Summit, New Jersey, real property (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
- 10.2 1986 Stock Option Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 13, 1990).
- 10.3 1992 Long-Term Incentive Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement, dated May 30, 1997).
- 10.4 1995 Non-Employee Directors' Incentive Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement, dated May 24, 1999).
- 10.5 Form of indemnification agreement between the Company and each officer and director of the Company (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996).
- 10.6 Services Agreement effective May 1, 2006 between the Company and John W. Jackson (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
- 10.7 Employment Agreement effective May 1, 2006 between the Company and Sol J. Barer (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
- 10.8 Employment Agreement effective May 1, 2006 between the Company and Robert J. Hugin (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006).
- 10.9 Celgene Corporation Replacement Stock Option Plan (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-3 dated May 18, 1998 (No. 333-52963)).
- 10.10 Form of Stock Option Agreement to be issued in connection with the Celgene Corporation Replacement Stock Option Plan (incorporated by reference to Exhibit 99.2 to the Company's



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Registration Statement on Form S-3 dated May 18, 1998 (No. 333-52963)).

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- 10.11 1998 Stock Incentive Plan, Amended and Restated as of April 23, 2003 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 10-Q for the quarter ended June 30, 2006).
- 10.12 Stock Purchase Agreement dated June 23, 1998 between the Company and Biovail Laboratories Incorporated (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 17, 1998).
- 10.13 Registration Rights Agreement dated as of July 6, 1999 between the Company and the Purchasers in connection with the issuance of the Company's 9.00% Senior Convertible Note Due June 30, 2004 (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999).
- 10.14 Development and License Agreement between the Company and Novartis Pharma AG, dated April 19, 2000 (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
- 10.15 Collaborative Research and License Agreement between the Company and Novartis Pharma AG, dated December 20, 2000 (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
- 10.16 Custom Manufacturing Agreement between the Company and Johnson Matthey Inc., dated March 5, 2001 (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
- 10.17 Manufacturing and Supply Agreement between the Company and Mikart, Inc., dated as of April 11, 2001 (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
- 10.18 Distribution Services Agreement between the Company and Ivers Lee Corporation, d/b/a Sharp, dated as of June 1, 2000 (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
- 10.19 Amendment No. 1 to the 1992 Long-Term Incentive Plan, effective as of June 22, 1999 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
- 10.20 Amendment No. 1 to the 1995 Non-Employee Directors' Incentive Plan, effective as of June 22, 1999 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
- 10.21 Amendment No. 2 to the 1995 Non-Employee Directors' Incentive Plan, effective as of April 18, 2000 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).

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10.22 Celgene Corporation 2005 Deferred Compensation Plan, effective as of January 1, 2005 (incorporated by referring to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).

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10.23 Anthrogenesis Corporation Qualified Employee Incentive Stock Option Plan (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).

10.24 Agreement dated August 2001 by and among the Company, Children's Medical Center Corporation, Bioventure Investments KFT and Entremed Inc. (certain portions of the agreement have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment, which request has been granted) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002).

10.25 Exclusive License Agreement among the Company, Children's Medical Center Corporation and, solely for purposes of certain sections thereof, Entremed, Inc., effective December 31, 2002 (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).

10.26 Supply Agreement between the Company and Sifavitor s.p.a., dated as of September 28, 1999 (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).

10.27 Supply Agreement between the Company and Siegfried (USA), Inc., dated as of January 1, 2003 (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002).

10.28 Distribution and Supply Agreement by and between SmithKline Beecham Corporation, d/b/a GlaxoSmithKline and Celgene Corporation, entered into as of March 31, 2003 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003).

10.29 Securities Purchase Agreement dated as of April 8, 2003 between the Company and Pharmion Corporation in connection with the purchase by the Company of Pharmion's Senior Convertible Promissory Note in the principal amount of \$12,000,000 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).

10.30 Purchase Agreement dated May 28, 2003 between the Company and Morgan Stanley & Co. Incorporated, as Initial Purchaser, in connection with the purchase of \$400,000,000 principal amount of the Company's 1 3/4% Convertible Note Due 2008 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).

10.31 Registration Rights Agreement dated as of June 3, 2003 between the Company, as Issuer, and Morgan Stanley & Co. Incorporated, as

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Initial Purchaser (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 dated August 14, 2003 (No. 333-107977)).

10.32 Form of 1 3/4% Convertible Note Due 2008 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement of Form S-3 dated August 14, 2003).

10.33 Technical Services Agreement among the Company, Celgene UK Manufacturing II, Limited (f/k/a Penn T Limited), Penn Pharmaceutical Services Limited and Penn Pharmaceutical Holding Limited dated October 21, 2004 (incorporated by reference to

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Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).

10.34 Purchase and Sale Agreement between Ticona LLC and the Company dated August 6, 2004, with respect to the Summit, New Jersey property (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).

10.35 Letter Agreement among the Company, Pharmion Corporation and Pharmion GmbH dated December 3, 2004 (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).

10.36 License Agreement among the Company, Pharmion Corporation and Pharmion GmbH, dated as of November 16, 2001 (incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).

10.37 Amendment No. 1, dated March 3, 2003, to License Agreement among the Company, Pharmion Corporation and Pharmion GmbH, dated as of November 16, 2001 (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).

10.38 Letter Agreement, dated March 3, 2003, to License Agreement among the Company, Pharmion Corporation and Pharmion GmbH, dated as of November 16, 2001 (incorporated by reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).

10.39 Amendment No. 2, dated April 8, 2003, to License Agreement among the Company, Pharmion Corporation and Pharmion GmbH, dated as of November 16, 2001, as further amended (incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).

10.40 Letter Agreement, dated August 18, 2003, to License Agreement among the Company, Pharmion Corporation and Pharmion GmbH, dated as of November 16, 2001, as further amended (incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).

10.41 Letter Agreement, dated December 3, 2004, to License Agreement among the Company, Pharmion Corporation and Pharmion GmbH, dated

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as of November 16, 2001, as further amended (incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).

- 10.42 Letter Agreement among the Company, Pharmion Corporation and Pharmion GmbH dated December 3, 2004 (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
- 10.43 Amendment No. 2 to the Amended and Restated Distribution and License Agreement dated as of November 16, 2001, as amended March 4, 2003 and supplemented June 18, 2003, by and between Pharmion GmbH and Celgene UK Manufacturing II, Limited, dated December 3, 2004 (incorporated by reference to Exhibit 10.38 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
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- 10.44 Sublease between Gateway, Inc. ("Sublandlord") and Celgene Corporation ("Subtenant"), entered into as of December 10, 2001, with respect to the San Diego property (incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
- 10.45 Lease Agreement, dated January 16, 1987, between the Company and Powder Horn Associates, with respect to the Warren, New Jersey property (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form S-1, dated July 24, 1987) (incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
- 10.46 Amendment No. 3 to the 1995 Non-Employee Directors' Incentive Plan, effective as of April 23, 2003 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
- 10.47 Amendment No. 4 to the 1995 Non-Employee Directors' Incentive Plan, effective as of April 5, 2005 (incorporated by reference to Exhibit 99.2 to the Company's Registration Statement on Form S-8 (No. 333-126296)).
- 10.48 Amendment No. 1 to the 1998 Stock Incentive Plan, Amended and Restated as of April 23, 2003, effective as of April 14, 2005 (incorporated by reference to Exhibit 99.2 to the Company's Registration Statement on Form S-8 (No. 333-126296)).
- 10.49 Forms of Award Agreement for the 1998 Stock Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Post-Effective Amendment to the Registration Statement on Form S-3 dated December 30, 2005 (Registration No. 333-75636)).
- 10.50 Supply Agreement between the Company and Evotec OAI Limited, dated August 1, 2004 (certain portions of the agreement have been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.50 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
- 10.51 Commercial Contract Manufacturing Agreement between the Company

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and OSG Norwich Pharmaceuticals, Inc., dated April 26, 2004 (certain portions of the agreement have been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.51 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).

- 10.52 Finished Goods Supply Agreement (Revlimid(TM)) between the Company and Penn Pharmaceutical Services Limited, dated September 8, 2004 (certain portions of the agreement have been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.52 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
- 10.53 Distribution Services and Storage Agreement between the Company and Sharp Corporation, dated January 1, 2005 (certain portions of the agreement have been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).

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- 10.54 Amendment No. 2 to the 1998 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
- 10.55\* Asset Purchase Agreement dated as of December 8, 2006 by and between Siegfried Ltd., Siegfried Dienste AG and Celgene Chemicals Sarl (certain portions of the agreement have been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment, which request is still pending).
- 10.56\* Celgene Corporation Management Incentive Plan (MIP) and Performance Plan.
- 10.57\* Letter Agreement between the Company and David W. Gryska.
- 14.1 Code of Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).
- 21.1\* List of Subsidiaries.
- 23.1\* Consent of KPMG LLP.
- 24.1\* Power of Attorney (included in Signature Page).
- 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.

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99.1\* Comparison of cumulative total return among Celgene Corporation, the S&P 500 Index, the NASDAQ Composite Index and the NASDAQ Pharmaceutical Index.

\* Filed herewith.

(c) See Financial Statements immediately following Index to Consolidated Financial Statements and Consolidated Financial Statement Schedule.

SIGNATURES AND POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person or entity whose signature appears below constitutes and appoints Sol J. Barer and Robert J. Hugin, and each of them, its true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for it and in its name, place and stead, in any and all capacities, to sign any and all amendments to this Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all contents and purposes as it might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of Section 13 or 15 (d) 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

By: /s/ Sol J. Barer
-----
Sol J. Barer
Chairman of the Board and
Chief Executive Officer

Date: February 27, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Table with 3 columns: SIGNATURE, TITLE, DATE. Row 1: /s/ Sol J. Barer, Chairman of the Board and Chief Executive Officer, February 27, 2007. Row 2: /s/ Robert J. Hugin, Director, Chief Operating Officer, February 27, 2007.

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Robert J. Hugin

/s/ David W. Gryska  
-----  
David W. Gryska

Chief Financial Officer (Principal  
Accounting Officer)

February 2

/s/ Jack L. Bowman  
-----  
Jack L. Bowman

Director

February 2

/s/ Michael D. Casey  
-----  
Michael D. Casey

Director

February 2

/s/ Rodman L. Drake  
-----  
Rodman L. Drake

Director

February 2

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SIGNATURE  
-----

TITLE  
-----

DATE  
-----

/s/ Arthur Hull Hayes, Jr.  
-----  
Arthur Hull Hayes, Jr.

Director

February 2

/s/ Gilla Kaplan  
-----  
Gilla Kaplan

Director

February 2

-----  
James Loughlin

Director

February 2

-----  
Richard C. E. Morgan

Director

February 2

-----  
Walter L. Robb

Director

February 2

/s/ James R. Swenson  
-----  
James R. Swenson

Controller

February 2

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The foregoing constitutes a majority of the directors.

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### CELGENE CORPORATION AND SUBSIDIARIES

#### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

##### Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Operations - Years Ended December 31, 2006, 2005, and 2004

Consolidated Statements of Cash Flows - Years Ended December 31, 2006, 2005, and 2004

Consolidated Statements of Stockholders' Equity - Years Ended December 31, 2006, 2005, and 2004

Notes to Consolidated Financial Statements

##### Consolidated Financial Statement Schedule

Schedule II - Valuation and Qualifying Accounts

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#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Celgene Corporation:

We have audited the accompanying consolidated balance sheets of Celgene Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule, "Schedule II - Valuation and Qualifying Accounts." These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Celgene Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their



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operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 and 13 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment," effective January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Celgene Corporation and subsidiaries' internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, and our report dated February 27, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Short Hills, New Jersey  
February 27, 2007

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

| December 31,   | 2006        |
|--|-------------|
| <b>ASSETS</b>  |             |
| Current assets:  |             |
| Cash and cash equivalents  | \$ 1,439,41 |
| Marketable securities available for sale   | 542,80      |
| Accounts receivable, net of allowances of \$6,625 and \$3,739<br>at December 31, 2006 and 2005, respectively | 127,77      |
| Inventory  | 25,37       |
| Deferred income taxes  | 87,97       |
| Other current assets   | 87,65       |
| Total current assets   | 2,311,00    |
| Property, plant and equipment, net   | 146,64      |
| Investment in affiliated companies   | 16,37       |
| Intangible assets, net   | 100,50      |
| Goodwill   | 38,49       |
| Other assets   | 122,76      |
| Total assets   | \$ 2,735,79 |

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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

|                                     |          |
|-------------------------------------|----------|
| Accounts payable                    | \$ 24,41 |
| Accrued expenses                    | 112,99   |
| Income taxes payable                | 84,85    |
| Current portion of deferred revenue | 7,64     |
| Other current liabilities           | 9,79     |

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|                           |        |
|---------------------------|--------|
| Total current liabilities | 239,70 |
|---------------------------|--------|

---

|  |        |
|--|--------|
| Long-term convertible notes              | 399,88 |
| Deferred revenue, net of current portion | 63,02  |
| Other non-current liabilities            | 56,99  |

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|                   |        |
|-------------------|--------|
| Total liabilities | 759,61 |
|-------------------|--------|

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COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY:

|   |          |
|---|----------|
| Preferred stock, \$.01 par value per share, 5,000,000 shares authorized; none outstanding at December 31, 2006 and 2005, respectively                         | -        |
| Common stock, \$.01 par value per share, 575,000,000 shares authorized; issued 380,092,309 and 344,125,158 shares at December 31, 2006 and 2005, respectively | 3,80     |
| Common stock in treasury, at cost; 4,057,553 and 1,953,282 shares at December 31, 2006 and 2005, respectively   | (148,09) |
| Additional paid-in capital  | 2,209,88 |
| Accumulated deficit   | (101,77) |
| Accumulated other comprehensive income  | 12,35    |

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|                            |          |
|----------------------------|----------|
| Total stockholders' equity | 1,976,17 |
|----------------------------|----------|

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|  |             |
|--|-------------|
| Total liabilities and stockholders' equity | \$ 2,735,79 |
|--|-------------|

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See accompanying Notes to Consolidated Financial Statements

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

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|                          |      |      |      |
|--------------------------|------|------|------|
| Years ended December 31, | 2006 | 2005 | 2004 |
|--------------------------|------|------|------|

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Revenue:

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|  |            |            |            |
|--|------------|------------|------------|
| Net product sales                          | \$ 811,605 | \$ 445,625 | \$ 330,571 |
| Collaborative agreements and other revenue | 18,189     | 41,334     | 20,012     |
| Royalty revenue                            | 69,079     | 49,982     | 26,919     |
| -----                                      |            |            |            |
| Total revenue                              | 898,873    | 536,941    | 377,502    |
| -----                                      |            |            |            |
| Expenses:                                  |            |            |            |
| Cost of goods sold                         | 125,892    | 80,727     | 59,726     |
| Research and development                   | 258,621    | 190,834    | 160,852    |
| Selling, general and administrative        | 339,669    | 181,796    | 114,196    |
| -----                                      |            |            |            |
| Total expenses                             | 724,182    | 453,357    | 334,774    |
| -----                                      |            |            |            |
| Operating income                           | 174,691    | 83,584     | 42,728     |
| Other income and expense:                  |            |            |            |
| Interest and investment income, net        | 40,352     | 24,557     | 28,340     |
| Equity in losses of affiliated companies   | 8,233      | 6,923      | --         |
| Interest expense                           | 9,417      | 9,497      | 9,551      |
| Other income (expense), net                | 5,502      | (7,509)    | 1,654      |
| -----                                      |            |            |            |
| Income before income taxes                 | 202,895    | 84,212     | 63,171     |
| -----                                      |            |            |            |
| Income tax provision                       | 133,914    | 20,556     | 10,415     |
| -----                                      |            |            |            |
| Net income                                 | \$ 68,981  | \$ 63,656  | \$ 52,756  |
| =====                                      |            |            |            |
| Net income per common share:               |            |            |            |
| Basic                                      | \$ 0.20    | \$ 0.19    | \$ 0.16    |
| Diluted                                    | \$ 0.18    | \$ 0.18    | \$ 0.15    |
| Weighted average shares:                   |            |            |            |
| Basic                                      | 352,217    | 335,512    | 327,738    |
|  | =====      | =====      | =====      |
| Diluted                                    | 407,181    | 390,585    | 345,710    |
|  | =====      | =====      | =====      |

See accompanying Notes to Consolidated Financial Statements

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

|                          |      |      |
|--------------------------|------|------|
| Years Ended December 31, | 2006 | 2005 |
|--------------------------|------|------|

Cash flows from operating activities:

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|  |              |          |
|--|--------------|----------|
| Net income   | \$ 68,981    | \$ 63,6  |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: |              |          |
| Depreciation and amortization of long-term assets  | 25,714       | 14,2     |
| Provision for accounts receivable allowances   | 2,169        | 1,0      |
| Realized loss (gain) on marketable securities available for sale   | 4,390        | 1,8      |
| Unrealized loss on value of EntreMed warrants  | 418          | 6,8      |
| Equity in losses of affiliated companies   | 7,401        | 6,2      |
| Non-cash stock-based compensation expense  | 76,748       | (2       |
| Amortization of premium (discount) on marketable securities available for sale, net                      | (3,101)      | 1,7      |
| Amortization of debt issuance cost   | 2,443        | 2,4      |
| Deferred income taxes  | (55,491)     | (47,1    |
| Shares issued for employee benefit plans   | 6,517        | 3,5      |
| Other  | 94           | 1,0      |
| Change in current assets and liabilities, excluding the effect of acquisition:                           |              |          |
| Increase in accounts receivable  | (55,290)     | (33,0    |
| (Increase) decrease in inventory   | (1,600)      | 4,1      |
| Increase in other operating assets   | (53,464)     | (21,5    |
| (Decrease) increase in accounts payable and accrued expenses   | (32,989)     | 11,8     |
| Increase in income tax payable   | 93,265       | 29,9     |
| Increase (decrease) in deferred revenue  | (2,644)      | (4,6     |
| Net cash provided by operating activities  | 83,561       | 41,9     |
| Cash flows from investing activities:  |              |          |
| Capital expenditures   | (46,137)     | (35,8    |
| Purchase of manufacturing facility   | (12,445)     |          |
| Business acquisition   | --           | (7,1     |
| Proceeds from sales and maturities of marketable securities available for sale                           | 857,918      | 598,3    |
| Purchases of marketable securities available for sale  | (780,101)    | (647,8   |
| Investment in affiliated companies   | (7,400)      | (10,5    |
| Purchase of investment securities  | (5,051)      |          |
| Purchase of intangible assets  | --           | (1       |
| Net cash provided by (used in) investing activities  | 6,784        | (103,1   |
| Cash flows from financing activities:  |              |          |
| Net proceeds from exercise of common stock options and warrants  | 113,072      | 52,6     |
| Excess tax benefit from share-based compensation arrangements  | 101,992      |          |
| Repayment of capital lease and note obligations  | --           |          |
| Issuance of common stock   | 1,006,182    |          |
| Net cash provided by financing activities  | 1,221,246    | 52,6     |
| Effect of currency rate changes on cash and cash equivalents   | 4,508        | (3,3     |
| Net increase (decrease) in cash and cash equivalents   | 1,316,099    | (11,9    |
| Cash and cash equivalents at beginning of period   | 123,316      | 135,2    |
| Cash and cash equivalents at end of period   | \$ 1,439,415 | \$ 123,3 |

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See accompanying Notes to Consolidated Financial Statements

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

| Years Ended December 31,   | 2006         | 2005        |
|--|--------------|-------------|
| Supplemental schedule of non-cash investing and financing activity:              |              |             |
| Change in net unrealized loss (gain) on marketable securities available for sale | \$ (16,576)  | \$ 60,098   |
| Matured shares tendered in connection with stock option exercises                | \$ (104,183) | \$ (50,295) |
| Conversion of convertible notes  | \$ 95        | \$ 16       |
| Accrual for business and other long term asset purchases                         | \$ --        | \$ 4,250    |
| Note payable for purchase of manufacturing facility                              | \$ 26,086    | \$ --       |
| Supplemental disclosure of cash flow information:                                |              |             |
| Interest paid  | \$ 6,999     | \$ 7,000    |
| Income taxes paid  | \$ 25,677    | \$ 36,258   |

See accompanying Notes to Consolidated Financial Statements

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CELGENE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 (Dollars in thousands)

| Years Ended December 31, 2006, 2005 and 2004 | Common Stock | Treasury Stock | Additional Paid-in Capital | Accum Def |
|--|--------------|----------------|----------------------------|-----------|
|--|--------------|----------------|----------------------------|-----------|

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-----  
Balances at December 31, 2003 \$ 814 \$ -- \$ 607,484 \$ (28)  
-----

Net income 5

Other comprehensive income:

Increase in unrealized gain on  
available for sale securities, net of tax  
Reclassification adjustment for gains  
included in net income  
Currency translation adjustments

Comprehensive income

Treasury stock -mature shares tendered  
related to option exercise (306)  
Issuance of common stock related to the 2:1  
stock split 823 (823)  
Exercise of stock options and warrants 13 16,329  
Issuance of common stock for employee benefit  
plans 1 4,266  
Expense related to non-employee stock options  
and restricted stock granted to employees 449  
Income tax benefit upon exercise of stock  
options 14,202

-----  
Balances at December 31, 2004 \$ 1,651 \$ (306) \$ 641,907 \$ (23)  
-----

Net income

Other comprehensive income:

Decrease in unrealized gain on available  
for sale securities, net of tax  
Reclassification adjustment for losses  
included in net income  
Income tax benefit upon recognition of  
deferred tax assets and liabilities  
Currency translation adjustments

Comprehensive income

Recognition of deferred tax asset 30,199  
Treasury stock -mature shares tendered related  
to option exercise (50,295)  
Issuance of common stock related to the 2:1  
February 17, 2006 stock split 1,720 (1,720)  
Conversion of long-term convertible notes 16  
Exercise of stock options and warrants 69 76,346  
Issuance of common stock for employee benefit  
plans 1 3,506  
Expense related to restricted stock granted  
to employees (243)  
Income tax benefit upon exercise of stock  
options 103,590

-----  
Balances at December 31, 2005 \$ 3,441 \$ (50,601) \$ 853,601 \$ (17)  
-----

Net income

Other comprehensive income:

Increase in unrealized gain on available  
for sale securities, net of tax  
Reclassification adjustment for losses

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included in net income  
Currency translation adjustments

|   |     |           |              |              |
|---|-----|-----------|--------------|--------------|
| Comprehensive income  |     |           |              |              |
| Treasury stock -mature shares tendered related to option exercise                     |     | (104,183) |              |              |
| Issuance of common stock related to the 2:1 February 17, 2006 stock split             | 15  |           | (15)         |              |
| Conversion of long-term convertible notes   |     |           | 95           |              |
| Issuance of common stock related to the secondary stock offering                      | 200 |           | 1,005,982    |              |
| Exercise of stock options and warrants  | 144 | 1,476     | 158,221      |              |
| Issuance of common stock for employee benefit plans                                   |     | 5,211     | 1,306        |              |
| Issuance of restricted stock  | 1   |           | (1)          |              |
| Expense related to stock-based compensation and restricted stock granted to employees |     |           | 76,748       |              |
| Income tax benefit upon exercise of stock options                                     |     |           | 113,952      |              |
| -----   |     |           |              |              |
| Balances at December 31, 2006   | \$  | 3,801     | \$ (148,097) | \$ 2,209,889 |
| -----   |     |           |              |              |

See accompanying Notes to Consolidated Financial Statements

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CELGENE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2006

(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS, UNLESS OTHERWISE INDICATED)

(1) NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS AND BASIS OF PRESENTATION: Celgene Corporation and its subsidiaries (collectively "Celgene" or the "Company") is a global biopharmaceutical company primarily engaged in the discovery, development and commercialization of innovative therapies designed to treat cancer and immune-inflammatory diseases through regulation of cellular, genomic and proteomic targets. The Company's commercial stage programs include pharmaceutical sales of REVLIMID(R), THALOMID(R), ALKERAN(R) and sales of FOCALINTM to Novartis Pharma AG, or Novartis; a licensing agreement with Novartis which entitles us to royalties on FOCALIN XRTM and the entire RITALIN(R) family of drugs; a licensing and product supply agreement with Pharmion for its sales of thalidomide; and sales of bio-therapeutic products and services through its Cellular Therapeutics subsidiary.

The consolidated financial statements include the accounts of Celgene Corporation and its subsidiaries. All inter-company transactions and balances have been eliminated. Investments in limited partnerships and interests 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 reclassifications have been made to prior years' financial statements in order to conform to the current year's presentation. In addition, the Company updated its presentation of how it reflects deferred income taxes and changes in income tax payable within the cash flows from the operations section of the Consolidated Statement of Cash Flows for the years ended December 31, 2005 and 2004. The presentation will better align the deferred income tax amount with the

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deferred tax amount reflected in the statement of operations and the change in income taxes payable with the amount of current expense. Our statement of cash flows for the year ended December 31, 2006 was prepared on this basis. We have reclassified certain amounts in 2005 and 2004 within the operating section of cash flows in the Consolidated Statement of Cash Flows to conform to this presentation. The reclasses do not impact previously reported cash flows from operations, financing or investing activities for those years.

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. The Company is subject to certain risks and uncertainties such as uncertainty of product development, uncertainties regarding regulatory approval, no assurance of market acceptance of products, risk of product liability, uncertain scope of patent and proprietary rights, intense competition, and rapid technological change.

**FINANCIAL INSTRUMENTS:** Certain financial instruments reflected in the Consolidated Balance Sheets, (e.g., cash, cash equivalents, account receivable, certain other assets, accounts payable and certain other liabilities) are recorded at cost, which approximates fair value due to their short-term nature. The fair values of financial instruments other than marketable securities are determined through a combination of management estimates and information obtained from third parties using the latest market data. The fair value of available for sale marketable securities is based on quoted market prices. The carrying value of the note payable to Siegfried was \$25.9 million at December 31, 2006 and approximated its fair value. The fair values of the following financial instruments are disclosed in the following footnotes: marketable securities (Note 4); EntreMed, Inc. common stock (Note 7); and convertible debt (Note 9).

**DERIVATIVE INSTRUMENTS:** The Company periodically utilizes foreign currency denominated forward contracts to hedge currency fluctuations of transactions denominated in currencies other than the functional currency. These derivative instruments are not designated as accounting hedges, and are recorded on the balance sheet at fair value with changes in the fair value being recognized in earnings along with any offsetting change in the value of the underlying hedged item. We do not utilize derivatives for speculative or trading purposes.

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### CELGENE CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2006

(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS, UNLESS OTHERWISE INDICATED)

**CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES:** We invest our excess cash in money market funds and in highly liquid debt instruments of U.S. municipalities, corporations, and the U.S. government and its agencies. All investments with maturities of three months or less from the date of purchase are classified as cash equivalents and all highly liquid investments with maturities of greater than three months from date of purchase are classified as marketable securities. These securities are carried at fair value, with the unrealized gains and losses, net of taxes, reported as a component of stockholders' equity, except for unrealized losses determined to be other than temporary, which are recorded as a charge to interest and investment income, net. Any realized gains or losses on the sale of marketable securities are determined on a specific identification method, and such gains and losses along with amortization of premiums and accretion of discounts to maturity are included in interest and investment income, net. Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the



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effective-interest method. Dividend and interest income are recognized when earned.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value in accordance with Financial Accounting Standards Board, or FASB, Staff Position, or FSP, FAS No. 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The impairment would be charged to earnings for the difference between the investment's cost and fair value at such date and a new cost basis for the security established. Factors evaluated to determine if an investment is other-than-temporarily impaired include significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the issuer; adverse changes in the general market condition in which the issuer operates; the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment; and, issues that raise concerns about the issuer's ability to continue as a going concern.

CONCENTRATION OF CREDIT RISK: Cash, cash equivalents, and marketable securities are financial instruments that potentially subject the Company to concentration of credit risk. The Company invests its excess cash primarily in U.S. government agency securities, mortgage obligations and marketable debt securities of financial institutions and corporations with strong credit ratings. The Company may also invest in unrated or below investment grade securities, such as collateralized debt obligations or equity in private companies. The Company has established guidelines relative to diversification and maturities to maintain safety and liquidity. These guidelines are reviewed periodically and may be modified to take advantage of trends in yields and interest rates.

As is typical in the pharmaceutical industry, the Company sells its products primarily through wholesale distributors and therefore, wholesale distributors account for a large portion of the Company's trade receivables and net product revenues (see Note 18). In light of this concentration, the Company continuously monitors the creditworthiness of its customers and has internal policies regarding customer credit limits. The Company estimates an allowance for doubtful accounts based on the creditworthiness of its customers, aging of receivables balances and general economic conditions. An adverse change in those factors could affect the Company's estimate of its bad debts.

INVENTORY: Inventories are carried at the lower of cost or market. Cost is determined using the first-in, first-out, or FIFO, method. We periodically review the composition of inventory in order to identify obsolete, slow-moving or otherwise non-saleable items. We record inventory write-downs in the period that the impairment is first recognized. Historically, inventory write-downs have been immaterial.

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PROPERTY, PLANT AND EQUIPMENT: Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation of plant and equipment is recorded using the straight-line method. Leasehold improvements are depreciated over the lesser of the economic useful life of the asset or the remaining term of the lease. The estimated useful lives of plant and equipment are as follows:

Buildings

40 years

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|                                  |          |
|----------------------------------|----------|
| Building and operating equipment | 15 years |
| Machinery and equipment          | 5 years  |
| Furniture and fixtures           | 5 years  |
| Computer equipment and software  | 3 years  |

Maintenance and repairs are charged to operations as incurred and improvements capitalized.

**INVESTMENT IN AFFILIATED COMPANIES:** At December 31, 2006, the Company held a total common stock investment of 10,364,864 shares, or approximately 12.3% ownership in EntreMed, Inc. The Company also holds 3,350,000 shares of EntreMed voting preferred shares that are convertible into 16,750,000 shares of common stock and therefore, determined that it has significant influence over EntreMed and applies the equity method of accounting to its common stock investment.

Investments are reviewed to determine whether an other-than-temporary decline in value of the investment has been sustained. If it is determined that the investment has sustained an other-than-temporary decline in its value, the investment will be written down to its fair value. Such an evaluation is judgmental and dependent on the specific facts and circumstances. Factors that the Company considers in determining whether an other-than-temporary decline in value has occurred include: the market value of the investment, based on either market-quoted prices or future rounds of financing by the investee, in relation to its cost basis, the period of time that the market value is below its cost basis, the financial condition of the investee, including fundamental changes to its business prospect, and the Company's intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment. The Company evaluates information that it is aware of in addition to available quoted market prices, if any, in determining whether an other-than-temporary decline in value exists.

**GOODWILL AND OTHER INTANGIBLE ASSETS:** Goodwill represents the excess of purchase price over the fair value of net assets acquired in an acquisition accounted for by the purchase method of accounting. Goodwill and acquired intangible assets having an indefinite useful life are not amortized, but instead are tested for impairment at least annually. Intangible assets with estimable useful lives are amortized to their estimated residual values over their respective estimated useful lives, and reviewed for impairment if certain events occur as described below.

The Company's intangible assets consist of supply agreements, contract-based licenses, technology and an acquired workforce. Amortization periods related to these categories range from 5 to 14 years.

**IMPAIRMENT OF LONG-LIVED ASSETS:** Long-lived assets, such as property, plant, and equipment, software costs and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future undiscounted net cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a

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disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

**FOREIGN CURRENCY TRANSLATION:** Operations in non-U.S. subsidiaries are generally recorded in local currencies, which are also the functional currencies for financial reporting purposes. The results of operations for non-U.S. subsidiaries are translated from local currencies into U. S. dollars using the average currency rate during each period, which approximates the results that would be obtained using actual currency rates on the dates of individual transactions. Assets and liabilities are translated using currency rates at the end of the period. Adjustments resulting from translating the financial statements of the Company's foreign subsidiaries into the U.S. dollar are excluded from the determination of net income and are recorded as a component of other comprehensive income. Transaction gains and losses are recorded as incurred in other income (expense), net in the Consolidated Statement of Operations.

**RESEARCH AND DEVELOPMENT COSTS:** All research and development costs are expensed as incurred. These include all internal costs, external costs related to services contracted by the Company and research services conducted for others. Upfront and milestone payments made to third parties in connection with research and development collaborations are expensed as incurred up to the point of regulatory approval. Payments made to third parties subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the related product.

**INCOME TAXES:** The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect for years in which the temporary differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. Research and development tax credits will be recognized as a reduction of the provision for income taxes when realized. The Company recognizes the benefit of an uncertain tax position that it has taken or expects to take on income tax returns it files if such tax position is probable of being sustained.

**REVENUE RECOGNITION:** Revenue from the sale of products is recognized when title and risk of loss of the product is transferred to the customer, which is typically upon product shipment. Provisions for discounts, early payments, rebates, sales returns and distributor charge-backs under terms customary in the industry are provided for in the same period the related sales are recorded. Provisions recorded in 2006, 2005 and 2004 totaled approximately \$153.5 million, \$103.2 million and \$54.5 million, respectively.

Revenue under research contracts is recorded as earned under the contracts, as services are provided. In accordance with SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," upfront nonrefundable fees associated with license and development agreements where the Company has continuing involvement in the agreement, are recorded as deferred revenue and recognized over the estimated service period of the last item of performance to be delivered. If the estimated service period is subsequently modified, the period over which the up-front fee is recognized is modified accordingly on a prospective basis.

SAB No. 104 requires companies to identify separate units of accounting based on

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the consensus reached in Emerging Issues Task Force, or EITF, Issue No. 00-21, "Revenue Arrangements With Multiple Deliverables", or EITF 00-21. EITF 00-21 provides guidance on how to determine when an arrangement that involves multiple revenue-generating activities or deliverables should be divided into separate units of accounting for revenue recognition purposes, and if this division is required, how the arrangement consideration should be allocated among the separate units of accounting. EITF 00-21 is effective for revenue arrangements entered into in quarters beginning after June 15, 2003. If the deliverables in a revenue arrangement constitute separate units of accounting according to the EITF's separation criteria, the revenue-recognition policy must be determined for each identified unit. If the arrangement is a single unit of

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accounting, the revenue-recognition policy must be determined for the entire arrangement. Under arrangements where the license fees and research and development activities can be accounted for as a separate unit of accounting, nonrefundable upfront license fees are deferred and recognized as revenue on a straight-line basis over the expected term of the Company's continued involvement in the research and development process. Revenues from the achievement of research and development milestones, if deemed substantive, are recognized as revenue when the milestones are achieved, and the milestone payments are due and collectible. Milestones are considered substantive if all of the following conditions are met: (1) the milestone is nonrefundable; (2) achievement of the milestone was not reasonably assured at the inception of the arrangement; (3) substantive effort is involved to achieve the milestone; and, (4) the amount of the milestone appears reasonable in relation to the effort expended, the other milestones in the arrangement and the related risk associated with achievement of the milestone. If any of these conditions are not met, the Company would recognize a proportionate amount of the milestone payment upon receipt as revenue that correlates to work already performed and the remaining portion of the milestone payment would be deferred and recognized as revenue as the Company completes its performance obligations.

Continuation of certain contracts and grants are dependent upon the Company achieving specific contractual milestones; however, none of the payments received to date are refundable regardless of the outcome of the project.

**SHARE-BASED COMPENSATION:** In December 2004, the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 123R, "Share-Based Payment", or SFAS 123R. SFAS 123R, which replaces SFAS 123, and supersedes APB 25, which requires that compensation cost relating to share-based payment transactions be recognized in financial statements based on the fair value for all awards granted after the date of adoption as well as for existing awards for which the requisite service has not been rendered as of the date of adoption.

The Company adopted SFAS 123R effective January 1, 2006 and has selected the Black-Scholes method of valuation for share-based compensation. The Company has adopted the modified prospective application method under which the provisions of SFAS 123R apply to new awards and to awards modified, repurchased, or cancelled after the adoption date. Additionally, compensation cost for the portion of the awards for which the requisite service has not been rendered that are outstanding as of the adoption date is recognized in the Consolidated Statement of Operations over the remaining service period after the adoption date based on the award's original estimate of fair value. SFAS 123R requires

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compensation costs to be recognized based on the estimated number of awards expected to vest. Changes in the estimated forfeiture rates are reflected prospectively.

Prior to January 1, 2006, the Company applied the intrinsic-value-based method of accounting for stock-based compensation prescribed by Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," or APB 25, and related interpretations. As such, compensation expense for grants of stock options to employees or members of the Board of Directors would be recorded on the date of grant only if the current market price of the Company's stock exceeded the exercise price. SFAS No. 123, "Accounting For Stock-Based Compensation," or SFAS 123, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by SFAS 123, the Company elected to continue to apply the intrinsic-value-based method of APB 25 described above, and adopted only the disclosure requirements of SFAS 123, as amended by SFAS No. 148, "Accounting For Stock-Based Compensation - Transition and Disclosure."

**EARNINGS PER SHARE:** Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period increased to include all additional common shares that would have been outstanding assuming potentially dilutive common shares had been issued and any proceeds thereof used to repurchase common stock at the average market price during the period. The proceeds used to repurchase

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common stock are assumed to be the sum of the amount to be paid to the Company upon exercise of options, the amount of compensation cost attributed to future services and not yet recognized and, if applicable, the amount of income taxes that would be credited to or deducted from capital upon exercise. If the convertible debt is determined to be dilutive, net earnings is adjusted to add back the after-tax impact of interest expense recognized on the Company's convertible debt.

**COMPREHENSIVE INCOME (LOSS):** Comprehensive income (loss) represents the change in equity from non-owner sources and is presented in the Consolidated Statements of Stockholders' Equity. It consists of net income, changes in net unrealized gains (losses) on marketable securities classified as available for sale, net of income taxes and changes in currency translation adjustments.

Accumulated other comprehensive income is summarized as follows:

|                         | Net Unrealized<br>Gains (Losses<br>from<br>Investments | Foreign<br>Currency<br>Translation<br>Adjustment | Accumulated<br>Other<br>Comprehensive<br>Income |
|-------------------------|--|--|---|
| Balance January 1, 2005 | \$ 63,926  | \$ 4,676   | \$ 68,602                                       |
| Period change           | (59,093)   | (9,421)  | (68,514)  |

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|                           |           |            |           |
|---------------------------|-----------|------------|-----------|
| Balance December 31, 2005 | 4,833     | (4,745)    | 88        |
| Period change             | 10,889    | 1,380      | 12,269    |
|                           |           |            |           |
| Balance December 31, 2006 | \$ 15,722 | \$ (3,365) | \$ 12,357 |
|                           |           |            |           |

**CAPITALIZED SOFTWARE COSTS:** The Company capitalizes software costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in property, plant and equipment, net and are amortized over their estimated useful life of three years from the date the systems are ready for their intended use.

**NEW ACCOUNTING PRINCIPLES:** In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109" or FIN 48. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes," or SFAS 109, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As the provisions of FIN 48 will be applied to all tax positions upon initial adoption, the cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. This Interpretation is effective for the Company beginning January 1, 2007. We are in the process of analyzing the impact of this Interpretation and believe that it will not have a material impact on the Company's results of operations. However, the Company does expect to make certain balance sheet reclassifications to comply with FIN 48.

In September 2006 the FASB, issued SFAS No. 157, "Fair Value Measurements", which establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Where applicable, this Statement simplifies and codifies related guidance within generally accepted accounting principles (GAAP). This accounting standard is effective for the Company beginning January 1, 2008. The Company has not yet determined the effect, if any, the adoption of SFAS 157 may have on the its consolidated financial statements.

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In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140," which permits a fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation. This accounting standard is effective for the Company beginning January 1, 2007. The Company has not yet determined the effect, if any, the adoption of SFAS 155 may have on its financial position and results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements," or SAB 108, which provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 provides for the

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quantification of the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. SAB 108 is effective for fiscal years ending on or after November 15, 2006. The Company adopted the provisions of SAB 108 retroactive to January 1, 2006 and determined that it had no impact on the Company's financial statements for the year ended December 31, 2006.

### (2) ACQUISITION

On October 21, 2004, the Company acquired all of the outstanding shares of Penn T Limited, or Penn T, a worldwide supplier of THALOMID(R), for a US dollar equivalency of approximately \$117.0 million in cash, net of cash acquired and including working capital adjustments and transaction costs paid during the first quarter of 2005.

The following unaudited pro forma information presents a summary of consolidated results of operations for the year ended December 31, 2004 as if the acquisition of Penn T had occurred on January 1, 2004. The unaudited pro forma results of operations is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transaction had been consummated at the date indicated, nor is it necessarily indicative of future operating results of the combined companies and should not be construed as representative of these amounts for any future dates or periods.

| Pro forma (UNAUDITED)        | 2004      |
|------------------------------|-----------|
| Total revenues               | \$394,097 |
| Net income                   | 56,661    |
| Net income per diluted share | \$ 0.16   |
|                              |           |

The unaudited pro forma information includes an adjustment to reflect the amortization of intangible assets resulting from the acquisition, which primarily consists of a product supply agreement that is being amortized over its useful life of 13 years.

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### (3) EARNINGS PER SHARE (EPS)

|  | 2006      | 2005      | 2004      |
|--|-----------|-----------|-----------|
| Net income                                       | \$ 68,981 | \$ 63,656 | \$ 52,756 |
| Interest expense on convertible debt, net of tax | 5,571     | 5,571     | --        |
| Net income                                       | \$ 74,552 | \$ 69,227 | \$ 52,756 |
|  |           |           |           |

Weighted average shares:

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|  |         |         |         |
|--|---------|---------|---------|
| Basic:                                 | 352,217 | 335,512 | 327,738 |
| Effect of dilutive securities:         |         |         |         |
| Options, warrants and other incentives | 21,949  | 22,051  | 17,972  |
| Convertible debt                       | 33,015  | 33,022  | --      |
| Diluted:                               | 407,181 | 390,585 | 345,710 |
| =====                                  |         |         |         |
| Net Income Per Share:                  |         |         |         |
| Basic                                  | \$ 0.20 | \$ 0.19 | \$ 0.16 |
| Diluted                                | \$ 0.18 | \$ 0.18 | \$ 0.15 |
| =====                                  |         |         |         |

The potential common shares related to the convertible notes issued June 3, 2003 (see Note 9) were anti-dilutive and were excluded from the diluted earnings per share computation for 2004. The total number of potential common shares excluded from the diluted earnings per share computation because their inclusion would have been anti-dilutive was 3,647,015, 10,223,974 and 41,686,756 shares in 2006, 2005 and 2004, respectively.

(4) CASH, CASH EQUIVALENTS AND MARKETABLE SECURITIES AVAILABLE-FOR-SALE

Money market mutual funds of \$1.401 billion and \$83.6 million at December 31, 2006 and 2005, respectively are 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 December 31, 2006 and 2005 was as follows:

| December 31, 2006                              | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Loss | Est<br>V |
|--|-------------------|-----------------------------|-----------------------------|----------|
| Mortgage-backed obligations                    | 62,137            | 281                         | (426)                       |          |
| U.S. treasury securities                       | 53,260            | --                          | (497)                       |          |
| Government-sponsored agency securities         | 349,756           | 70                          | (3,771)                     | 3        |
| Corporate debt securities                      | 13,477            | 17                          | (470)                       |          |
| Other asset-backed securities                  | 17,315            | 1,731                       | --                          |          |
| Marketable equity securities                   | 20,212            | 29,713                      | --                          |          |
| Total available-for-sale marketable securities | \$516,157         | \$ 31,812                   | \$ (5,164)                  | \$5      |
| =====  |                   |                             |                             |          |

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| December 31, 2005                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Loss | Est<br>V   |
|---|-------------------|-----------------------------|-----------------------------|------------|
| Mortgage-backed obligations                           | \$ 86,478         | \$ 365                      | \$ (524)                    | \$         |
| U.S. treasury securities                              | 24,391            | 14                          | (614)                       |            |
| Government-sponsored agency securities                | 183,315           | 25                          | (3,538)                     | 1          |
| Corporate debt securities                             | 18,526            | 29                          | (2,652)                     |            |
| Other asset-backed securities                         | 29,765            | 164                         | (1,842)                     |            |
| Auction rate notes                                    | 232,575           | --                          | --                          | 2          |
| Marketable equity securities                          | 20,212            | 14,255                      | --                          |            |
| <b>Total available-for-sale marketable securities</b> | <b>\$595,262</b>  | <b>\$ 14,852</b>            | <b>\$ (9,170)</b>           | <b>\$6</b> |

Government-sponsored agency securities include fixed asset-backed securities issued by the Federal National Mortgage Association and the Federal Home Loan Bank. Other asset-backed securities are securities backed by collateral other than mortgage obligations. Unrealized losses for mortgage-backed obligations, U.S. treasury securities and government-sponsored agency securities were primarily due to increases in interest rates. Unrealized losses for corporate debt and other asset-backed securities were due to increases in interest rates as well as widening credit spreads. The Company has sufficient liquidity and the intent to hold these securities until the market value recovers. Moreover, the Company does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the individual investments.

The fair value of available-for-sale securities with unrealized losses at December 31, 2006 was as follows:

| December 31, 2006                      | Less than 12 months        |                             | 12 months or longer        |                             | Estimat<br>Fair<br>Value |
|--|----------------------------|-----------------------------|----------------------------|-----------------------------|--------------------------|
|  | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Loss | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Loss |                          |
| Mortgage-backed obligations            | \$ 3,253                   | \$ 18                       | \$ 26,957                  | \$ 408                      | \$ 30,2                  |
| U.S. treasury securities               | 34,636                     | 232                         | 18,127                     | 265                         | 52,7                     |
| Government-sponsored agency securities | 71,880                     | 195                         | 165,901                    | 3,576                       | 237,7                    |
| Corporate debt securities              | --                         | --                          | 12,727                     | 469                         | 12,7                     |
| Other asset-backed securities          | --                         | --                          | 278                        | 1                           | 2                        |
| <b>Total</b>                           | <b>\$109,769</b>           | <b>\$ 445</b>               | <b>\$223,990</b>           | <b>\$ 4,719</b>             | <b>\$333,7</b>           |

During the years ended December 31, 2006 and 2005, the Company determined that certain securities had sustained an other-than-temporary impairment due to a reduction in their future estimated cash flows and as a result, the Company recognized impairment losses of \$3.8 million and \$3.1 million, respectively, which were recorded in interest and investment income, net.

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Duration of debt securities classified as available-for-sale were as follows at December 31, 2006:

|                                      | Amortized<br>Cost | Fair<br>Value |
|--------------------------------------|-------------------|---------------|
| Duration of one year or less         | \$128,487         | \$128,453     |
| Duration of one through three years  | 95,815            | 95,190        |
| Duration of three through five years | 255,740           | 253,121       |
| Duration of five through seven years | 15,903            | 16,116        |
| Total                                | \$495,945         | \$492,880     |

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(5) INVENTORY

A summary of inventories by major category follows:

|                 | 2006      | 2005      |
|-----------------|-----------|-----------|
| Raw materials   | \$ 10,133 | \$ 5,044  |
| Work in process | 4,715     | 1,644     |
| Finished goods  | 10,523    | 13,554    |
| Total           | \$ 25,371 | \$ 20,242 |

(6) PLANT AND EQUIPMENT

Plant and equipment at December 31, 2006 and 2005 consisted of the following:

|   | 2006      | 2005      |
|---|-----------|-----------|
| Land  | \$ 18,586 | \$ 17,836 |
| Buildings                                       | 19,436    | 12,509    |
| Building and operating equipment                | 3,308     | 2,618     |
| Leasehold improvements                          | 8,505     | 8,741     |
| Machinery and equipment                         | 66,167    | 27,603    |
| Furniture and fixtures                          | 6,977     | 6,751     |
| Computer equipment and software                 | 31,662    | 22,370    |
| Construction in progress                        | 36,725    | 7,103     |
|   | 191,366   | 105,531   |
| Less: accumulated depreciation and amortization | 44,721    | 28,054    |
| Total   | \$146,645 | \$ 77,477 |

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(7) INVESTMENT IN AFFILIATED COMPANIES

A summary of the Company's equity investment in affiliated companies follows:

| Investment in Affiliated Companies                     | 2006     | 2005     |
|--|----------|----------|
| Investment in EntreMed equity (1)                      | \$ 2,609 | \$ 4,025 |
| Excess of investment over share of EntreMed equity (2) | 12,690   | 12,992   |
| Investment in EntreMed                                 | 15,299   | 17,017   |
| Investment in Burrill Life Sciences (See Note 17)      | 1,080    | --       |
| Investment in affiliated companies                     | \$16,379 | \$17,017 |
| Equity in Losses of Affiliated Companies               | 2006     | 2005     |
| Celgene's share of EntreMed, Inc. losses (1)           | \$ 6,779 | \$ 1,617 |
| Write-off of in-process research and development       | --       | 4,383    |
| Elimination of intercompany transaction (3)            | 832      | 687      |
| Amortization of intangibles(2)                         | 302      | 236      |
| Equity in losses of EntreMed                           | \$ 7,913 | \$ 6,923 |
| Celgene share of losses in Burrill Life Sciences       | 320      | --       |
| Equity in losses of affiliated companies               | \$ 8,233 | \$ 6,923 |

- (1) The Company records its interest and share of losses in EntreMed Inc. based on its common stock ownership, which was 12.3% and 14.0% at December 31, 2006 and 2005, respectively.
- (2) Consists of intangible assets and goodwill of \$301 and \$12,389 at December 31, 2006 and \$603 and \$12,389 at December 31, 2005.
- (3) Under a license agreement between EntreMed and Royalty Pharma Finance Trust, EntreMed is entitled to share in the THALOMID(R) royalty payments that the Company pays to Royalty Pharma on annual THALOMID(R) sales above a certain threshold. As prescribed by the equity method of accounting, the Company's share of EntreMed's royalties, based on its ownership percentage in EntreMed, is eliminated from cost of goods sold and reflected in equity in losses of affiliated companies.

The fair value of the Company's common stock investment in EntreMed, Inc. at December 31, 2006 was \$16.4 million.

Summarized financial information of EntreMed, Inc is as follows:

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December 31,

|                   | 2006        | 2005        |
|-------------------|-------------|-------------|
|                   | (Unaudited) | (Unaudited) |
| Total assets      | \$56,024    | \$36,432    |
| Total liabilities | \$ 8,875    | \$ 6,879    |
| Total equity      | \$47,131    | \$29,536    |

|                | Year Ended<br>December, 31<br>2006 | Nine-Month Period<br>Ended<br>December 31, 2005 |
|----------------|------------------------------------|---|
|                | (Unaudited)                        | (Unaudited)                                     |
| Total revenues | \$ 7,063                           | \$ 5,893  |
| Operating loss | 51,484                             | 11,648  |
| Net loss       | 49,721                             | 10,792  |

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(8) OTHER FINANCIAL INFORMATION

Accrued expenses at December 31, 2006 and 2005 consisted of the following:

|   | 2006      | 2005      |
|---|-----------|-----------|
| Compensation  | \$ 42,422 | \$ 22,087 |
| Interest, royalties, license fees and milestones          | 14,741    | 18,181    |
| Sales returns   | 9,480     | 5,017     |
| Rebates, distributor chargebacks and distributor services | 18,101    | 27,738    |
| Clinical trial costs and grants                           | 14,526    | 10,866    |
| Other   | 13,722    | 9,019     |
| Total   | \$112,992 | \$ 92,908 |

Other non-current liabilities at December 31, 2006 and 2005 consisted of the following:

|  | 2006      | 2005      |
|--|-----------|-----------|
| Deferred compensation and long-term incentives | \$ 19,422 | \$ 15,420 |
| Notes payable                                  | 22,594    | --        |
| Deferred income taxes                          | 12,191    | 11,676    |
| Other  | 2,788     | 754       |
| Total  | \$ 56,995 | \$ 27,850 |

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NOTES PAYABLE: In December 2006, the Company purchased an active pharmaceutical ingredient, or API, manufacturing facility and certain other assets and liabilities from Siegfried Ltd. and Siegfried Dienste AG (referred to here together as "Siegfried") located in Zofingen, Switzerland. The transaction included a technical service agreement which will allow the Company to retain the necessary support to operate the plant. The assets were purchased for a U.S. dollar equivalency of approximately \$46.0 million, consisting of payment of approximately \$12.4 million at the closing, \$3.4 million payable in each of the first five following years and \$3.3 million in each of the subsequent five years. The present value of the note payable was a U.S. dollar equivalency of approximately, \$25.9 million at December 31, 2006, of which \$3.3 million, representing the amount due within one-year, was included in other current liabilities with the remainder included in other non-current liabilities. The Company imputed interest on the note payable using the effective yield method with a discount rate of 7.68%. At December 31, 2006, payments totaling a U.S. dollar equivalency of approximately \$16.4 million due over years 6 to 10 are forgiven if, pursuant to our right, we elect to sell the facility back to Siegfried.

### (9) CONVERTIBLE DEBT

In June 2003, the Company issued an aggregate principal amount of \$400.0 million of unsecured convertible notes. The notes have a five-year term and a coupon rate of 1.75% payable semi-annually on June 1 and December 1. Each \$1,000 principal amount of convertible notes is convertible into 82.5592 shares of common stock as adjusted, or a conversion rate of \$12.1125 per share, which represented a 50% premium to the closing price on May 28, 2003 of the Company's common stock of \$8.075, after adjusting prices for the two-for-one stock splits affected on February 17, 2006 and October 22, 2004. The debt issuance costs related to these convertible notes, which totaled approximately \$12.2 million, are classified under other assets on the consolidated balance sheet and are being amortized over five years, assuming no conversion. Under the terms of the purchase agreement, the noteholders can convert the outstanding notes at any time into 33,014,519 shares of common stock at the conversion price. In addition, the noteholders have the right to require the Company to redeem the notes in cash at a price equal to 100% of the principal amount to be

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redeemed, plus accrued interest, prior to maturity in the event of a change of control and certain other transactions defined as a "fundamental change" in the indenture governing the notes. Subsequent to the June 2003 issuance date, an immaterial amount of principal has been converted into common stock.

At December 31, 2006 and 2005, the fair value of the Company's convertible notes outstanding exceeded the carrying value by approximately \$1.5 billion and \$660.0 million, respectively.

### (10) GOODWILL AND INTANGIBLE ASSETS

INTANGIBLE ASSETS: A summary of intangible assets by category follows:

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| December 31, 2006        | Gross Carrying Value | Accumulated Amortization | Intangible Assets, Net | Weighted Average Life (Years) |
|--------------------------|----------------------|--------------------------|------------------------|-------------------------------|
| Penn T supply agreements | \$108,462            | \$ (12,296)              | \$ 96,166              | 12.9                          |
| License                  | 4,250                | (307)                    | 3,943                  | 13.8                          |
| Technology               | 122                  | (12)                     | 110                    | 12.0                          |
| Acquired workforce       | 295                  | (5)                      | 290                    | 5.0                           |
| <b>Total</b>             | <b>\$113,129</b>     | <b>\$ (12,620)</b>       | <b>\$100,509</b>       | <b>12.9</b>                   |

| December 31, 2005        | Gross Carrying Value | Accumulated Amortization | Intangible Assets, Net | Weighted Average Life (Years) |
|--------------------------|----------------------|--------------------------|------------------------|-------------------------------|
| Penn T supply agreements | \$ 95,278            | \$ (2,659)               | \$ 92,619              | 12.9                          |
| License                  | 4,250                | --                       | 4,250                  | 13.8                          |
| Technology               | 122                  | (3)                      | 119                    | 12.0                          |
| <b>Total</b>             | <b>\$ 99,650</b>     | <b>\$ (2,662)</b>        | <b>\$ 96,988</b>       | <b>13.0</b>                   |

The \$13.5 million increase in gross carrying value of intangible assets from December 31, 2005 to December 31, 2006 includes \$13.2 million from the impact of foreign currency translation and \$0.3 million from the December 2006 acquisition of a workforce related to the purchase of the API manufacturing facility in Switzerland.

Amortization of acquired intangible assets was approximately \$9.0 million, \$2.1 million and \$0.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. Assuming no changes in the gross carrying amount of intangible assets, the amortization of intangible assets for the next five fiscal years is estimated to be approximately \$9.3 million per year.

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GOODWILL: At December 31, 2006, the Company's recorded goodwill related to the acquisition of Penn T on October 21, 2004. Goodwill related to the acquisition of Anthrogenesis Corp. was eliminated during the first quarter of 2005 as prescribed by SFAS No. 109, "Accounting for Income Taxes," due to reversal of the valuation allowance for deferred tax assets that had been recorded at time of acquisition. The changes in the carrying value of goodwill are summarized as follows:

|                            |           |
|----------------------------|-----------|
| Balance, December 31, 2004 | \$ 41,258 |
|----------------------------|-----------|

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|   |           |
|---|-----------|
| Reversal of deferred tax asset valuations | (3,006)   |
| Purchase accounting adjustments           | (347)     |
| Foreign currency translation              | (4,090)   |
|   | -----     |
| Balance, December 31, 2005                | 33,815    |
| Foreign currency translation              | 4,679     |
|   | -----     |
| Balance, December 31, 2006                | \$ 38,494 |
|   | =====     |

(11) RELATED PARTY TRANSACTIONS: Under a license agreement between EntreMed and Royalty Pharma Finance Trust, EntreMed is entitled to share in the THALOMID(R) royalty payments that the Company pays to Royalty Pharma on annual THALOMID(R) sales in the United States above a certain threshold. The Company's share of EntreMed's royalties, based on its ownership percentage in EntreMed, is eliminated from cost of goods sold and reflected in equity in losses of affiliated companies (see Note 7).

In March 2005, the Company licensed to EntreMed rights to develop and commercialize its tubulin inhibitor compounds. Under the terms of the agreement, Celgene received an up-front license payment of \$1.0 million and is entitled to additional payments upon successful completion of certain clinical, regulatory and sales milestones. Under the agreement, EntreMed will provide all resources needed to conduct clinical research and regulatory activities associated with seeking marketing approvals of the tubulin inhibitors for oncology applications.

### (12) STOCKHOLDERS' EQUITY

**PREFERRED STOCK:** The Board of Directors is authorized 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 such shares.

**COMMON STOCK:** At December 31, 2006, the Company was authorized to issue up to 575,000,000 shares of common stock. In November 2006, the Company issued an additional 20,000,000 shares of its common stock at a public offering price of \$51.60 per share with net proceeds to the Company of \$1.006 billion. At December 31, 2006, shares of common stock issued totaled 380,092,309.

**TREASURY STOCK:** During 2006, 2005 and 2004, certain employees exercised stock options containing a reload feature and, pursuant to the Company's stock option plan, tendered 2,348,010, 1,932,154 and 21,128 stock split adjusted mature shares, respectively, related to stock option exercises. Such tendered shares are reflected as treasury stock. At December 31, 2006, treasury shares totaled 4,057,553.

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A summary of changes in common stock issued and treasury stock is presented below after adjustments of the two-for-one stock splits in October 2004 and February 2006:

-----  
Common

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| Balance   | Common Stock | in T |
|---|--------------|------|
| December 31, 2003   | 325,644,220  |      |
| Exercise of stock options and warrants                              | 4,121,316    |      |
| Issuance of common stock for employee benefit plans                 | 392,860      |      |
| Treasury stock - mature shares tendered related to option exercises | --           |      |
| December 31, 2004   | 330,158,396  |      |
| Exercise of stock options and warrants                              | 13,700,750   |      |
| Issuance of common stock for employee benefit plans                 | 264,692      |      |
| Treasury stock - mature shares tendered related to option exercises | --           | (1,  |
| Conversion of long-term convertible notes                           | 1,320        |      |
| December 31, 2005   | 344,125,158  | (1,  |
| Exercise of stock options and warrants                              | 15,839,310   |      |
| Issuance of common stock for employee benefit plans                 | --           |      |
| Treasury stock - mature shares tendered related to option exercises | --           | (2,  |
| Conversion of long-term convertible notes                           | 7,841        |      |
| Issuance of restricted stock  | 120,000      |      |
| Issuance of common stock in connection with public offering         | 20,000,000   |      |
| December 31, 2006   | 380,092,309  | (4,  |

RIGHTS PLAN: During 1996, the Company adopted a shareholder rights plan, or Rights Plan. The Rights Plan involves the distribution of one Right as a dividend on each outstanding share of the Company's common stock to each holder of record on September 26, 1996. Each Right shall entitle the holder to purchase one-tenth of a share of common stock. The Rights trade in tandem with the common stock until, and are exercisable upon, certain triggering events, and the exercise price is based on the estimated long-term value of the Company's common stock. In certain circumstances, the Rights Plan permits the holders to purchase shares of the Company's common stock at a discounted rate. The Company's Board of Directors retains the right at all times prior to acquisition of 15% of the Company's voting common stock by an acquirer, to discontinue the Rights Plan through the redemption of all rights or to amend the Rights Plan in any respect. The Rights Plan, as amended on February 17, 2000, increased the exercise price per Right from \$100.00 to \$700.00 and extended the final expiration date of the Rights Plan to February 17, 2010. On August 13, 2003, the Rights Plan was further amended to permit a qualified institutional investor to beneficially own up to 17% of the Company's common stock outstanding without being deemed an "acquiring person," if such institutional investor meets certain requirements.

(13) SHARE-BASED COMPENSATION

The Company has a shareholder approved 1998 equity incentive plan, or the 1998 Incentive Plan, that provides for the granting of options, restricted stock awards, stock appreciation rights, performance awards and other share-based awards to employees and officers of the Company. On June 14, 2006, the stockholders of the Company approved an amendment to the 1998 Incentive Plan to increase the aggregate number of shares of Common Stock that may be subject to awards thereunder from 62,000,000 to 84,000,000 shares, subject to adjustment under certain circumstances. The Management Compensation and Development Committee of the Board of Directors, or the Compensation Committee, determines the type, amount and terms, including vesting, of any awards made under the Incentive Plan. The 1998 Incentive Plan will terminate in 2008.



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With respect to options granted under the 1998 Incentive Plan, the exercise price may not be less than the market price of the common stock on the date of grant. In general, options granted under the 1998 Incentive Plan vest over periods ranging from immediate vesting to four-year vesting and expire ten years from the date of grant, subject to earlier expiration in case of termination of employment. The vesting period for options granted under the 1998 Incentive Plan is subject to certain acceleration provisions if a change in control, as defined in the 1998 Incentive Plan, occurs. Plan participants may elect to exercise options at any time during the option term. However, any shares so purchased which have not vested as of the date of exercise shall be subject to forfeiture, which will lapse in accordance with the established vesting time period.

In June 1995, the stockholders of the Company approved the 1995 Non-Employee Directors' Incentive Plan, which, as amended, provides for the granting of non-qualified stock options to purchase an aggregate of not more than 7,700,000 shares of common stock (subject to adjustment under certain circumstances) to directors of the Company who are not officers or employees of the Company, or Non-Employee Directors. Each new Non-Employee Director, upon the date of election or appointment, receives an option to purchase 20,000 shares of common stock, which vest in four equal annual installments commencing on the first anniversary of the date of grant. As amended in 2003, continuing Non-Employee Directors receive quarterly grants of 3,750 options aggregating 15,000 options annually, which vest in full one year from the date of grant. The 1995 Non-Employee Directors' Incentive Plan also provides for a discretionary grant upon the date of each annual meeting of an additional option to purchase up to 5,000 shares to a Non-Employee Director who serves as a member (but not a chairman) of a committee of the Board of Directors and an option to purchase up to 10,000 shares to a Non-Employee Director who serves as the chairman of a committee of the Board of Directors. All options are granted at an exercise price that equals the market value of the Company's common stock at the grant date and expire ten years after the date of grant. This plan terminates on June 30, 2015.

The Anthrogenesis Corporation Qualified Employee Incentive Stock Option Plan has not been approved by the Company's stockholders. As a result of the acquisition of Anthrogenesis on December 31, 2002, the company acquired the Anthrogenesis Qualified Employee Incentive Stock Option Plan, or the Qualified Plan, and the Non-Qualified Recruiting and Retention Stock Option Plan, or the Non-Qualified Plan. No future awards will be granted under the Non-Qualified Plan. The Qualified Plan authorizes the award of incentive stock options, which are stock options that qualify for special federal income tax treatment. The exercise price of any stock option granted under the Qualified Plan may not be less than the fair market value of the common stock on the date of grant. In general, options granted under the Qualified Plan vest evenly over a four-year period and expire ten years from the date of grant, subject to earlier expiration in case of termination of employment. The vesting period is subject to certain acceleration provisions if a change in control occurs. No award will be granted under the Qualified Plan on or after December 31, 2008.

Stock options available for future grants under all plans were 22,042,287 at December 31, 2006.

The following table illustrates the effect on net income and net income per

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common share applicable to common stockholders for the years ended December 31, 2005 and 2004 as if the Company had applied the fair value recognition provisions for stock-based compensation of SFAS 123, as amended:

|   | 2005      | 2004      |
|---|-----------|-----------|
| Net income as reported  | \$ 63,656 | \$ 52,756 |
| Add: stock-based employee compensation expense included in reported income, net of tax      | (143)     | 250       |
| Add: stock-based employee compensation expense determined under fair-value-based method (1) | (52,746)  | (26,027)  |
| Basic pro forma net income  | \$ 10,767 | \$ 26,979 |
| Interest expense on convertible debt, net of tax  | 5,571     | --        |
| Diluted, pro forma net income   | \$ 16,338 | \$ 26,979 |
|   |           |           |
| Net income per common share:  |           |           |
| Basic, as reported  | \$ 0.19   | \$ 0.16   |
| Basic, pro forma  | \$ 0.03   | \$ 0.08   |
| Diluted, as reported  | \$ 0.18   | \$ 0.15   |
| Diluted, pro forma  | \$ 0.03   | \$ 0.08   |

(1) Year 2005 reflects an adjustment recorded in the first quarter of 2005 to eliminate related valuation allowances of \$17.7 million based on the Company's determination that it was more likely than not that certain benefits of its deferred tax assets would be realized.

SFAS 123R, which replaces SFAS 123, and supersedes APB 25, requires that compensation cost relating to share-based payment transactions be recognized in financial statements based on the fair value for all awards granted after the date of adoption as well as for existing awards for which the requisite service has not been

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rendered as of the date of adoption. The modified prospective transition method as prescribed by SFAS 123R does not require restatement of prior periods to reflect the impact of adopting SFAS 123R.

The Company adopted SFAS 123R effective January 1, 2006 and has selected the Black-Scholes method of valuation for share-based compensation. The Company has adopted the modified prospective application method under which the provisions of SFAS 123R apply to new awards and to awards modified, repurchased, or cancelled after the adoption date. Additionally, compensation cost for the portion of the awards for which the requisite service has not been rendered that are outstanding as of the adoption date is recognized in the Consolidated Statement of Operations over the remaining service period after the adoption

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date based on the award's original estimate of fair value. SFAS 123R requires compensation costs to be recognized based on the estimated number of awards expected to vest. Changes in the estimated forfeiture rates are reflected prospectively.

The following table summarizes the impact of adopting SFAS 123R on 2006 results of operations:

|   | 2006     |
|---|----------|
| Cost of good sold                                       | \$ 1,637 |
| Research and development                                | 12,740   |
| Selling, general and administrative                     | 62,266   |
|   | -----    |
| Total share-based compensation expense                  | 76,643   |
| Tax benefit related to share-based compensation expense | 23,447   |
|   | -----    |
| Reduction in net income                                 | \$53,196 |
|   | -----    |
| Reduction in earnings per share:                        |          |
| Basic   | \$ 0.15  |
| Diluted   | \$ 0.13  |
|   | -----    |

Included in stock-based compensation expense for the year ended December 31, 2006 was compensation expense related to non-qualified stock options of \$57.2 million. Stock-based compensation expense totaling \$5.2 million was recognized during the year ended December 31, 2006 resulting from the modification of certain stock option awards previously granted to the Company's former Chief Executive Officer in connection with his retirement.

No amounts of share-based compensation cost were capitalized as inventory or other assets during 2006. As of December 31, 2006, there was \$88.8 million of total unrecognized compensation cost related to stock options granted under the plans. That cost will be recognized over an expected remaining weighted-average period of 1.4 years.

In computing the initial APIC Pool of excess tax benefits, the Company will apply the methodology described in paragraph 81 of SFAS 123R. Paragraph 81 of SFAS 123R prohibits recognition of a deferred tax asset for excess tax benefits that have not been realized. The Company has adopted the tax law method as its accounting policy regarding the ordering of tax benefits to determine whether an excess tax benefit has been realized.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statement of Cash Flows. SFAS 123R requires excess tax benefits (i.e., the tax benefit recognized upon exercise of stock options in excess of the benefit recognized from recognizing compensation cost for those options) to be classified as financing cash flows in the Consolidated Statement of Cash Flows. Cash received from stock option exercises for the year ended December 31, 2006 was \$113.1 million and the excess tax benefit recognized was \$102.0 million. Cash received from stock option exercises for the years ended December 31, 2005 and 2004 was \$52.6 million and \$16.0 million, respectively. Pursuant to SFAS 123R, tax benefits resulting from the exercise of stock options, which have been presented as operating cash flows prior to the adoption of SFAS 123R are not reclassified to financing activities, but rather shall continue to be presented as operating cash flows.

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The weighted-average grant-date fair value of the stock options granted during the years ended December 31, 2006, 2005 and 2004 was \$17.54 per share, \$9.60 per share and \$5.22 share. The Company estimated the fair value of options granted using a Black-Scholes option pricing model with the following assumptions:

|                                      | 2006        | 2005        | 2004  |
|--------------------------------------|-------------|-------------|-------|
| Risk-free interest rate              | 4.50%-5.24% | 3.37%-4.62% | 1.21% |
| Expected volatility                  | 40%-52%     | 40%-41%     | 41%   |
| Weighted average expected volatility | 47%         | 41%         |       |
| Expected term (years)                | 3.1-5.0     | 3.5-4.5     | 3.0   |
| Expected dividend yield              | 0%          | 0%          |       |

The fair value of stock options granted is estimated using the Black-Scholes option pricing model. The fair value of stock options granted after January 1, 2006 is amortized on a straight-line basis. The fair value of stock options granted before January 1, 2006 is amortized using the graded vesting attribution approach. Compensation cost is amortized over the requisite service periods of the awards, which are generally the vesting periods.

For grants during the year ended December 31, 2006, the risk-free interest rate is based on the U.S. Treasury zero-coupon curve. Expected volatility of stock option awards is estimated based on the implied volatility of the Company's publicly traded options with settlement dates exceeding one year. The use of implied volatility was based upon the availability of actively traded options on the Company's common stock and the assessment that implied volatility is more representative of future stock price trends than historical volatility. Prior to the adoption of SFAS 123R, the Company calculated expected volatility using only historical stock price volatility. The expected term of an employee share option is the period of time for which the option is expected to be outstanding. The Company has made a determination of expected term by analyzing employees' historical exercise experience from its history of grants and exercises in the Company's option database and management estimates. Forfeiture rates are estimated based on historical data.

In December 2005, in recognition of the significance of the REVLIMID(R) regulatory approval, the Board of Directors approved a resolution to grant the 2006 annual stock option awards under the 1998 Incentive Plan in 2005. All stock options awarded were granted fully vested. Half of the options granted had an exercise price of \$34.05 per option, which was at a 5% premium to the closing price of the Company's common stock of \$32.43 per share on the grant date of December 29, 2005; the remaining options granted had an exercise price of \$35.67 per option, which was at a 10% premium to the closing price of the Company's common stock of \$32.43 per share on the grant date of December 29, 2005. The Board's decision to grant these options was in recognition of the REVLIMID(R) regulatory approval and in response to a review of the Company's long-term incentive compensation programs in light of changes in market practices and

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recently issued changes in accounting rules resulting from the issuance of SFAS 123R, which the Company adopted effective in the first quarter of 2006. Granting these options prior to the adoption of FASB No. 123R resulted in the Company not being required to recognize cumulative compensation expense of approximately \$70.8 million for the four-year period ending December 31, 2009.

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Stock option transactions for the year ended December 31, 2005 and 2004 under all plans are as follows:

|                      | SHARES<br>AVAILABLE<br>FOR GRANT | OPTIONS OUTSTANDING |  |
|----------------------|----------------------------------|---------------------|--|
|                      |                                  | SHARES              | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE PER SHARE |
| Balance December 31, |                                  |                     |  |
| 2003                 | 2,600,665                        | 12,011,749          | \$ 25.28   |
| Stock split impact   | 2,600,665                        | 11,324,297          | --   |
| Granted              | (4,073,768)                      | 4,073,768           | 27.36  |
| Exercised            | --                               | (1,300,297)         | 7.99   |
| Cancelled            | 793,837                          | (844,799)           | 19.27  |
| 2004                 | 1,921,399                        | 25,264,718          | \$ 15.15   |
| Authorized           | 6,250,000                        | --                  | --   |
| Granted              | (7,302,665)                      | 7,302,665           | 54.32  |
| Exercised            | --                               | (6,840,682)         | 11.16  |
| Cancelled            | 405,262                          | (429,512)           | 23.72  |
| Stock split impact   | 1,273,996                        | 25,297,189          | --   |
| 2005                 | 2,547,992                        | 50,594,378          | \$ 13.70   |

Stock option transactions for the year ended December 31, 2006 under all plans are as follows:

|                                  | Options    | Weighted<br>Average<br>Exercise<br>Price<br>Per Option | Wei<br>Av<br>Rem<br>Cont<br>Term |
|----------------------------------|------------|--|----------------------------------|
| Outstanding at December 31, 2005 | 50,594,378 | \$ 13.70   |                                  |

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|   |              |    |       |
|---|--------------|----|-------|
| Changes during the year:                        |              |    |       |
| Granted   | 3,705,816    |    | 43.86 |
| Exercised                                       | (15,855,841) |    | 10.08 |
| Forfeited                                       | (1,235,384)  |    | 14.94 |
| Expired   | (97,281)     |    | 11.71 |
| -----   |              |    |       |
| Outstanding at December 31, 2006                | 37,111,688   | \$ | 18.18 |
| -----   |              |    |       |
| Vested or expected to vest at December 31, 2006 | 36,497,433   | \$ | 18.08 |
| -----   |              |    |       |
| Vested at December 31, 2006                     | 27,634,896   | \$ | 17.16 |
| =====   |              |    |       |

The total intrinsic value of stock options exercised during the years ended December 31, 2006, 2005 and 2004 was \$540.3 million, \$243.4 million and \$38.5 million, respectively. The Company primarily utilizes newly issued shares to satisfy the exercise of stock options.

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The following table summarizes information concerning options outstanding under the 1998 and 1995 Incentive Plans at December 31, 2006:

| Range of Exercise Prices | Options Outstanding |  |  | Number Vested | Opti |
|--------------------------|---------------------|--|--|---------------|------|
|                          | Number Outstanding  | Weighted Average Exercise Price Per Option | Weighted Average Remaining Term (yrs.) |               |      |
| \$ 0.04 - \$5.00         | 5,361,046           | \$ 1.87                                    | 2.9                                    | 5,361,046     | \$   |
| 5.01 - 10.00             | 7,296,723           | 6.76                                       | 4.5                                    | 6,559,911     |      |
| 10.01 - 15.00            | 7,337,144           | 12.87                                      | 6.7                                    | 3,891,731     |      |
| 15.01 - 20.00            | 3,423,871           | 16.56                                      | 7.0                                    | 1,653,743     |      |
| 20.01 - 30.00            | 4,658,241           | 25.17                                      | 6.7                                    | 2,780,199     |      |
| 30.01 - 40.00            | 5,739,148           | 34.70                                      | 8.4                                    | 5,361,248     |      |
| 40.01 - 59.01            | 3,295,515           | 44.83                                      | 6.0                                    | 2,027,018     |      |
| -----                    |                     |  |  | -----         |      |
| Total                    | 37,111,688          | \$ 18.18                                   | 6.0                                    | 27,634,896    | \$   |
| =====                    |                     |  |  | =====         |      |

Stock options granted to executives at the vice-president level and above under the 1998 Incentive Plan, after September 18, 2000, contained a reload feature which provided that if (1) the optionee exercises all or any portion of the stock option (a) at least six months prior to the expiration of the stock option, (b) while employed by the Company and (c) prior to the expiration date of the 1998 Incentive Plan and (2) the optionee pays the exercise price for the portion of the stock option exercised or pays minimum statutory applicable

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withholding taxes by using common stock owned by the optionee for at least six months prior to the date of exercise, the optionee shall be granted a new stock option under the 1998 Incentive Plan on the date all or any portion of the stock option is exercised to purchase the number of shares of common stock equal to the number of shares of common stock exchanged by the optionee to exercise the stock option or to pay withholding taxes thereon. The reload stock option will be exercisable on the same terms and conditions as apply to the original stock option except that (x) the reload stock option will become exercisable in full on the day which is six months after the date the original stock option is exercised, (y) the exercise price shall be the fair value (as defined in the 1998 Incentive Plan) of the common stock on the date the reload stock option is granted and (z) the expiration of the reload stock option will be the date of expiration of the original stock option. As of December 31, 2006, the Company has issued 10,876,300 stock options to executives that contain the reload features noted above, of which 1,422,235 options are still outstanding. The 1998 Incentive Plan was amended to eliminate the reload feature for all stock options granted on or after October 1, 2004.

**WARRANTS:** In connection with its acquisition of Anthrogenesis, the Company assumed the Anthrogenesis warrants outstanding, which were converted into warrants to purchase 867,356 shares of the Company's common stock. Anthrogenesis had issued warrants to investors at exercise prices equivalent to the per share price of their investment. As of December 31, 2006, Celgene had 378,652 warrants outstanding to acquire an equivalent number of shares of Celgene common stock at a weighted average exercise price of \$2.94 per warrant. The number of warrants exercised in 2006, 2005 and 2004 were 26,044, 19,388, and 153,144, respectively. These warrants expire on various dates from 2008 to 2012.

### (14) EMPLOYEE BENEFIT PLANS

The Company sponsors an investment savings plan, which qualifies under Section 401(k) of the Internal Revenue Code, as amended. The Company's contributions to the savings plan are discretionary and have historically been made in the form of the Company's common stock. Such contributions are based on

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specified percentages of employee contributions and aggregated a total expense charged to operations of \$8.2 million in 2006, \$6.5 million in 2005 and \$3.5 million in 2004.

During 2000, the Company's Board of Directors approved a deferred compensation plan effective September 1, 2000. In February, 2005, the Company's Board of Directors adopted the Celgene Corporation 2005 Deferred Compensation Plan, effective as of January 1, 2005, which operates as the Company's ongoing deferred compensation plan and which is intended to comply with the American Jobs Creation Act of 2004, which added new Section 409A to the Internal Revenue Code, changing the income tax treatment, design and administration of certain plans that provide for the deferral of compensation. The Company's Board of Directors also froze the 2000 deferred compensation plan, effective as of December 31, 2004, so that no additional contributions or deferrals can be made to that plan. Accrued benefits under the frozen plan will continue to be governed by the terms under the tax laws in effect prior to the enactment of Section 409A. Eligible participants, which include certain top-level executives of the Company as specified by the plan, can elect to defer up to 25% of the

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participant's base salary, 100% of cash bonuses and restricted stock and stock options gains (both subject to a minimum deferral of 50% of each award of restricted stock or stock option gain approved by the Compensation Committee for deferral). Company contributions to the deferred compensation plan represent a 100% match of the participant's deferral up to a specified percentage (ranging from 10% to 25%, depending on the employee's position as specified in the plan) of the participant's base salary. The Company recorded expense of \$0.5 million, \$0.4 million and \$0.8 million associated with the matching of the deferral of compensation in 2006, 2005 and 2004, respectively. All amounts are 100% vested at all times, except with respect to restricted stock, which will not be vested until the date the applicable restrictions lapse. At December 31, 2006 and 2005, the Company had a deferred compensation liability included in other non-current liabilities in the consolidated balance sheets of approximately \$15.5 million and \$11.2 million, respectively, which included the participant's elected deferral of salaries and bonuses, the Company's matching contribution and earnings on deferred amounts as of that date. The plan provides various alternatives for the measurement of earnings on the amounts participants defer under the plan. The measuring alternatives are based on returns of a variety of funds that offer plan participants the option to spread their risk across a diverse group of investments.

The Company has established a Long-Term Incentive Plan, or LTIP designed to provide key officers and executives with performance based incentive opportunities contingent upon achievement of pre-established corporate performance objectives covering a three-year period. The Company currently has three 3-year performance cycles running concurrently ending December 31, 2007, 2008 and 2009. The 2007 performance cycle was approved by the Management Compensation and Development Committee of the Board of Directors on February 2, 2007 and began on January 1, 2007 and will end on December 31, 2009. Performance measures for the Plans are based on the following components in the last year of the 3-year cycle: 25% on earnings per share, 25% on net income and 50% on revenue.

Payouts may be in the range of 0% to 200% of the participant's salary for the 2007, 2008 and 2009 Plans. The estimated payout for the concluded 2006 Plan is \$4.5 million, which is included in other current liabilities at December 31, 2006, and the maximum potential payout, assuming objectives are achieved at the 200% level for the 2007, 2008 and 2009 Plans are \$6.2 million, \$6.4 million and \$7.7 million, respectively. Such awards are payable in cash or, at its discretion, the Company can elect to pay the same value in its common stock based upon the Company's stock price at the payout date. The Company accrues the long-term incentive liability over each three-year cycle. Prior to the end of a three-year cycle, the accrual is based on an estimate of the Company's level of achievement during the cycle. Upon a change in control, participants will be entitled to an immediate payment equal to their target award, or, if higher, an award based on actual performance through the date of the change in control. For the years ended December 31, 2006, 2005 and 2004, the Company recognized expense related to the LTIP of \$4.6 million, \$4.4 million and \$3.4 million, respectively.

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(15) SPONSORED RESEARCH, LICENSE AND OTHER AGREEMENTS

PHARMION: In November 2001, the Company licensed to Pharmion Corporation



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exclusive rights relating to the development and commercial use of its intellectual property covering thalidomide and S.T.E.P.S(R). Under the terms of the agreement, the Company receives a royalty of 8% of Pharmion's net thalidomide sales in countries where Pharmion has received regulatory approval and a S.T.E.P.S(R) license fee of 8% in all other licensed territories. In December 2004, following the Company's acquisition of Penn T Limited, the Company entered into an amended thalidomide supply agreement with Pharmion whereby, in exchange for a reduction in Pharmion's purchase price of thalidomide to 15.5% of its net sales of thalidomide, the Company received a one-time payment of 39.6 million British pounds sterling, or U.S. dollar equivalency of \$77.0 million. Under the December 2004 agreement, as amended, the Company also received a one-time payment of \$3.0 million in return for granting license rights to Pharmion to develop and market thalidomide in additional territories and eliminating certain of its license termination rights. Under a separate letter agreement simultaneously entered into by the parties, Pharmion has also agreed to provide the Company with an aggregate \$8.0 million over a three-year period commencing January 1, 2005 and ending December 31, 2007 to support the two companies' existing thalidomide research and development efforts.

Pursuant to EITF 00-21, the Company has determined that the agreements constitute a single unit of accounting and pursuant to SAB No. 104, the Company has recorded the payments received as deferred revenue and is amortizing such payments on a straight-line basis over an estimated useful life of 13 years, which is the estimated life of the supply agreement. The remaining payments to be received under the thalidomide research and development letter agreement is approximately \$2.7 million at December 31, 2006 and will be recorded as deferred revenue in 2007 as such payments are received and amortized over the remaining useful life of the supply agreement.

NOVARTIS PHARMA AG: In April 2000, the Company entered into an agreement with Novartis in which it granted to Novartis an exclusive worldwide license (excluding Canada) to develop and market FOCALIN(TM) (d-methylphenidate, or d-MPH) and FOCALIN XR(TM), the long-acting drug formulation. The Company has retained the exclusive commercial rights to FOCALIN(TM) and FOCALIN XR(TM) for oncology-related disorders, such as chronic fatigue associated with chemotherapy. The Company also granted Novartis rights to all of its related intellectual property and patents, including new formulations of the currently marketed RITALIN(R). Under the agreement, the Company has received upfront and regulatory achievement milestone payments totaling \$55.0 million and is entitled to additional payments upon attainment of certain other milestone events. The Company also sells FOCALIN(TM) to Novartis as well as receive royalties on sales of all of Novartis' FOCALIN XR(TM) and RITALIN(R) family of ADHD-related products. The research portion of the agreement ended in June 2003.

### (16) INCOME TAXES

The income tax provision is based on income before income taxes as follows:

|                            | 2006       | 2005       | 2004       |
|----------------------------|------------|------------|------------|
| U.S                        | \$ 252,001 | \$ 135,048 | \$ 244,034 |
| Non-U.S                    | (49,106)   | (50,836)   | (180,863)  |
| Income before income taxes | \$ 202,895 | \$ 84,212  | \$ 63,171  |

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The provision/(benefit) for taxes on income from continuing operations is as follows:

|                                   | 2006       | 2005      | 2004      |
|-----------------------------------|------------|-----------|-----------|
| United States:                    |            |           |           |
| Taxes currently payable:          |            |           |           |
| Federal                           | \$ 160,553 | \$ 11,538 | \$ 6,429  |
| State and local                   | 27,681     | 8,609     | 4,067     |
| Deferred income taxes             | (54,456)   | (3,430)   | --        |
| Total U.S. tax provision          | 133,778    | 16,717    | 10,496    |
| International:                    |            |           |           |
| Taxes currently payable           | 1,171      | 4,926     | 23,486    |
| Deferred income taxes             | (1,035)    | (1,087)   | (23,567)  |
| Total international tax provision | 136        | 3,839     | (81)      |
| Total provision                   | \$ 133,914 | \$ 20,556 | \$ 10,415 |

Amounts are reflected in the preceding tables based on the location of the taxing authorities. As of December 31, 2006, we have not made a U.S. tax provision on certain unremitted earnings of our international subsidiaries. These earnings are expected to be reinvested overseas indefinitely. It is not practicable to compute the estimated deferred tax liability on these earnings.

The Company operates under an incentive tax holiday in Switzerland that expires in 2015 and exempts the Company from certain Swiss income taxes.

Deferred taxes arise because of different treatment between financial statement accounting and tax accounting, known as "temporary differences." The company records the tax effect on these temporary differences as "deferred tax assets" (generally items that can be used as a tax deduction or credit in future periods) or "deferred tax liabilities" (generally items for which the company received a tax deduction but that have not yet been recorded in the consolidated statement of operations). The Company periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of these deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized. The Company considers many factors when assessing the likelihood of future realization of deferred tax assets, including its recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income, the carryforward periods available to it for tax reporting purposes, tax planning strategies and other relevant factors. Significant judgment is required in making this assessment. At December 31, 2006 and 2005 the tax effects of temporary differences that give rise to deferred tax assets and liabilities were as follows:

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|  | 2006       |             |          |
|--|------------|-------------|----------|
|  | ASSETS     | LIABILITIES | ASSETS   |
| Federal and state net operating loss carryforwards         | \$ 72,167  | \$ --       | \$ 84,1  |
| Prepaid/deferred items                                     | 22,987     | --          | 30,0     |
| Deferred Revenue   | 22,253     | --          | 19,5     |
| Capitalized research expenses                              | 18,167     | --          | 6,8      |
| Research and experimentation tax credit carryforwards      | 28,979     | --          | 19,7     |
| Non-qualified stock options                                | 23,447     | --          |          |
| Plant and equipment, primarily differences in depreciation | 1,284      | --          | 6        |
| Inventory  | 2,685      | --          | 1,6      |
| Other Assets   | --         | (216)       |          |
| Intangibles  | 2,533      | (28,850)    | 7,9      |
| Accrued and other expenses                                 | 41,323     | --          | 13,5     |
| Unrealized gains on securities                             | --         | (10,924)    |          |
| Subtotal   | 235,825    | (39,990)    | 183,9    |
| Valuation allowance  | (18,999)   | --          | (10,3    |
| Total Deferred Taxes                                       | 216,826    | (39,990)    | \$ 173,5 |
| Net Deferred Tax Asset                                     | \$ 176,836 | --          | \$ 144,3 |

At December 31, 2006 and 2005, deferred tax assets and liabilities were classified on our balance sheet as follows:

|                               | 2006       | 2005       |
|-------------------------------|------------|------------|
| Current assets                | \$ 87,979  | \$ 113,059 |
| Other assets (non-current)    | 101,048    | 42,936     |
| Other non-current liabilities | (12,191)   | (11,676)   |
| Net deferred tax asset        | \$ 176,836 | \$ 144,319 |

Reconciliation of the U.S. statutory income tax rate to our effective tax rate for continuing operations is as follows:

| PERCENTAGES                         | 2006  | 2005   | 2004   |
|-------------------------------------|-------|--------|--------|
| US statutory rate                   | 35.0% | 35.0%  | 35.0%  |
| Foreign losses without tax benefit  | 16.6  | 27.2   | 50.5   |
| State taxes, net of federal benefit | 9.7   | 9.6    | 4.3    |
| Other                               | 4.5   | 3.2    | 1.7    |
| Change in valuation allowance       | 0.2   | (50.6) | (75.0) |
| Effective income tax rate           | 66.0% | 24.4%  | 16.5%  |

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At December 31, 2006, the Company had federal net operating loss carryforwards of approximately \$401.8 million and combined state net operating loss carryforwards of approximately \$ 387.5 million that will expire in the years 2007 through 2026. Under SFAS 123R, excess tax benefits related to stock option deductions incurred after December 31, 2005, are recognized in the period in which the tax deduction is realized through a reduction of income taxes payable. As a result, the Company has not recorded deferred tax assets for certain stock option deductions included in its net operating loss carryforwards. At December 31, 2006, stock option deductions included in the federal net operating loss carryforwards for which no deferred tax assets have been recorded were approximately \$226.1 million and stock option deductions included in the combined state net operating loss carryforwards for which no deferred tax assets have been recorded were approximately \$209.3 million. The excess tax benefit of these stock option deductions will be recorded as an

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increase in additional paid-in capital when realized. The Company also has research and experimentation credit carryforwards of approximately \$29.0 million that expire in the years 2007 through 2026.

At March 31, 2005, the Company determined it was more likely than not that certain benefits of its deferred tax assets would be realized based on favorable clinical data related to REVLIMID(R) (Lenalidomide) during the quarter in concert with the Company's nine consecutive quarters of profitability. This led to the conclusion that it was more likely than not that the Company will generate sufficient taxable income to realize the benefits of its deferred tax assets. As a result of eliminating the related valuation allowances, the Company recorded an income tax benefit in 2005 of \$42.6 million and an increase to additional paid-in capital of \$30.2 million. At December 31, 2006, it was more likely than not that the Company would realize its deferred tax assets, net of valuation allowances.

The Company realized stock option deduction benefits in 2006 and 2005 for income tax purposes and has increased additional paid-in capital in the amount of approximately \$114.0 million and \$103.6 million, respectively. The Company has recorded deferred income taxes as a component of accumulated other comprehensive income resulting in deferred income tax liabilities at December 31, 2006 and 2005 of \$10.9 million and \$0.9 million, respectively.

The Company's income tax returns are routinely audited by the Internal Revenue Service and various state and foreign authorities. Significant disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions because of differing interpretations of tax laws and regulations. The Company periodically evaluates its exposures associated with tax filing positions. While the Company believes its positions comply with applicable laws, it records liabilities based upon estimates of outcomes of these matters.

### (17) COMMITMENTS AND CONTINGENCIES

LEASES: The Company leases office and research facilities under various operating lease agreements in the United States, Europe, Japan and Australia. At December 31, 2006, the non-cancelable lease terms for the operating leases expire at various dates between 2007 and 2015 and include renewal options. In

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general, the Company is also required to reimburse the lessors for real estate taxes, insurance, utilities, maintenance and other operating costs associated with the leases.

Future minimum lease payments under noncancelable operating leases as of December 31, 2006 are:

|                              | Operating<br>Leases<br>----- |
|------------------------------|------------------------------|
| 2007                         | \$ 5,836                     |
| 2008                         | 5,212                        |
| 2009                         | 4,891                        |
| 2010                         | 4,455                        |
| 2011                         | 4,222                        |
| Thereafter                   | 5,311                        |
|                              | -----                        |
| Total minimum lease payments | \$ 29,927                    |
|                              | =====                        |

Total facilities rental expense under operating leases was approximately \$5.0 million in 2006, \$4.5 million in 2005 and \$4.3 million in 2004.

In October 2006, the Company invested \$1.4 million in Burrill Life Sciences Capital Fund III, or the Fund, for an 8.6% ownership interest. Pursuant to Emerging Issues Task Force Topic No. D-46, "Accounting for

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Limited Partnership Investments," the Company is accounting for this investment under the equity method of accounting. As prescribed by the equity method of accounting, the Company records its share of the Fund's investment gains, losses and expenses based on the percentage of its investment balance to the total Fund balance. The Company has committed to invest an additional \$18.6 million into the Fund which is callable any time over the next ten-years. The Fund will invest in start-up companies conducting business in life sciences such as biotechnology, pharmaceuticals, medical technology, devices, diagnostics plus health and wellness. In 2006, the Company recorded equity losses of \$0.3 million for its share of the Fund's expenses and at December 31, 2006, the Company's net investment was \$1.1 million.

In connection with the acquisition of Penn T, the Company entered into a five-year minimum period Technical Services Agreement with Penn Pharmaceutical Services Limited, or PPSL, and Penn Pharmaceutical Holding Limited under which PPSL provides the services and facilities necessary for the manufacture of THALOMID(R) and other thalidomide formulations. At December 31, 2006, the remaining cost to be incurred was approximately \$6.7 million through October 2009.

In March 2003, the Company entered into a supply and distribution agreement with GlaxoSmithKline to distribute, promote and sell ALKERAN(R) (melphalan), a therapy approved by the FDA for the palliative treatment of multiple myeloma and carcinoma of the ovary. Under the terms of the agreement, we purchase ALKERAN(R) tablets and ALKERAN(R) for infusion from GSK and distribute the products in the

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United States under the Celgene label. The agreement requires us to purchase certain minimum quantities each year under a take-or-pay arrangement. The agreement has been extended through March 31, 2009. On December 31, 2006, the remaining minimum purchase requirements under the agreement totaled \$67.3 million, consisting of the following subsequent extensions:

|                                       |           |
|---------------------------------------|-----------|
| o January 1, 2007 - December 31, 2007 | \$ 29,050 |
| o January 1, 2008 - December 31, 2008 | 30,525    |
| o January 1, 2009 - March 31, 2009    | 7,725     |
|                                       | -----     |
|                                       | \$ 67,300 |
|                                       | -----     |

CONTINGENCIES: The Company believes it maintains insurance coverage adequate for its current needs. The Company's 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. The Company reviews the effects of such laws and regulations on its operations and modifies its operations as appropriate. The Company believes it is in substantial compliance with all applicable environmental laws and regulations.

FDA regulatory exclusivity for thalidomide has expired so that generic drug companies can file an ANDA to seek approval to market thalidomide in the United States. Barr Laboratories, Inc., a generic drug manufacturer located in Pomona, New York, filed an ANDA for the treatment of ENL in the manner described in the Company's label and seeking permission from the FDA to market a generic version of 50mg, 100mg and 200mg THALOMID(R). Under the federal Hatch-Waxman Act of 1984, any generic manufacturer may file an ANDA with a certification (a "Paragraph IV certification") challenging the validity or infringement of a patent listed in the FDA's APPROVED DRUG PRODUCTS WITH THERAPEUTIC EQUIVALENCE EVALUATIONS (the "Orange Book") four years after the pioneer company obtains approval of its New Drug Application, or an NDA. On or after December 5, 2006, Barr mailed notices of Paragraph IV certifications alleging that the following patents listed for THALOMID(R) in the Orange Book are invalid, unenforceable, and/or not infringed: U.S. Patent Nos. 6,045,501 ("the '501 patent"), 6,315,720 ("the '720 patent"), 6,561,976 ("the '976 patent"), 6,561,977 ("the '977 patent"), 6,755,784 ("the '784 patent"), 6,869,399 ("the '399 patent"), 6,908,432 ("the '432 patent"), and 7,141,018 ("the '018 patent"). The '501, '976, and '432 patents do not expire until August 28, 2018, while the remaining patents do not expire until October 23, 2020. On January 18, 2007, the Company filed an infringement action in the United States District Court of New Jersey against Barr. The Company intends to vigorously enforce its rights under these patents. If the

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ANDA is approved by the FDA, and Barr is successful in challenging the Company's patents listed in the Orange Book for THALOMID(R), Barr would be permitted to sell a generic thalidomide product.

On August 19, 2004, the Company, together with its exclusive licensee Novartis, filed an infringement action in the United States District Court of New Jersey against Teva Pharmaceuticals USA, Inc., in response to notices of Paragraph IV certifications made by Teva in connection with the filing of an ANDA for

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FOCALINTM. The notification letters contend that United States Patent Nos. 5,908,850, or '850 patent, and 6,355,656, or '656 patent, were invalid. After the suit was filed, Novartis listed another patent, United States Patent No. 6,528,530, or '530 patent, in the Orange Book in association with the FOCALIN(TM) NDA. The original 2004 action asserted infringement of the '850 patent. Teva amended its answer during discovery to contend that the '850 patent was not infringed by the filing of its ANDA, and that the '850 patent is not enforceable due to an allegation of inequitable conduct. Fact discovery expired on February 28, 2006. At about the time of the filing of the '850 patent infringement action, reexamination proceedings for the '656 patent were initiated in the United States Patent and Trademark Office, or U.S. PTO. Recently, the U.S. PTO sent to the Company a Notice of Intent to Issue Ex Parte Reexamination Certificate. On December 21, 2006, Celgene and Novartis filed an action in the United States District Court of New Jersey against Teva for infringement of the '656 patent. As a related case, the '656 patent infringement action has been assigned to the same judge assigned to the '850 patent infringement action who consolidated it with the previously pending '850 patent infringement action. No trial date has been set for either case. The statutory 30-month stay of FDA approval of Teva's ANDA expired on January 9, 2007. If Teva goes to market with a generic version of FOCALIN(TM) prior to trial, or successfully defends against both patents, the Company's sales of FOCALIN(TM) to Novartis could be significantly reduced. The '530 patent is not part of the patent infringement action against Teva. The proceeding does not involve an ANDA for FOCALIN XR(TM).

On December 4, 2006, the Company, together with its exclusive licensee Novartis, filed an infringement action in the United States District Court for the District of New Jersey against Abrika Pharmaceuticals, Inc. and Abrika Pharmaceuticals, LLP, in response to a notice of a Paragraph IV certification made by Abrika Pharmaceuticals, Inc. in connection with the filing of an ANDA for RITALIN LA(TM). The notification letter contends that claims in United States Patent Nos. 5,837,284 and 6,635,284 are invalid and are not infringed by the proposed Abrika products. On December 6, 2006, the Company and Novartis filed a second identical action in the United States District Court for the District of Delaware as a protective suit and intended to serve the complaint and summons only in the event that personal jurisdiction in New Jersey was successfully challenged by Abrika. Abrika filed an answer and counterclaim in the Delaware court on December 8, 2006. The counterclaim seeks a declaratory judgment of patent invalidity, noninfringement and unenforceability. The Company and Novartis have moved the Delaware court to strike Abrika's answer and counterclaim without prejudice to refile if the complaint is later served, or to stay the action pending a determination of personal jurisdiction in the New Jersey court. The motion is fully briefed and awaiting a decision by the court. Abrika has moved to dismiss the New Jersey action or to transfer it to the Delaware court. The Company and Novartis have been granted leave to take discovery from Abrika prior to filing an opposition brief. The motion is scheduled to be fully briefed by March 26, 2007. Neither the Delaware court nor the New Jersey court has set a date for trial. If the Company is unsuccessful in defending its patents by a Court of final decision, Novartis' sales of RITALIN LA(TM) could be significantly reduced in the United States by the entrance of a generic RITALIN LA(TM) product, consequently reducing our revenue from royalties associated with these sales.

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CELGENE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2006

(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS, UNLESS OTHERWISE INDICATED)

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### (18) GEOGRAPHIC AND PRODUCT INFORMATION

OPERATIONS BY GEOGRAPHIC AREA: Revenues outside of North America consist primarily of sales of THALOMID(R) and REVLIMID(R) in France, the United Kingdom and Switzerland in addition to royalties from Novartis on their international sales of RITALIN(R) LA.

| REVENUES              | 2006             | 2005             | 2004             |
|-----------------------|------------------|------------------|------------------|
| United States         | \$845,418        | \$510,198        | \$368,628        |
| Europe                | 42,970           | 16,321           | 2,816            |
| All Other             | 10,485           | 10,422           | 6,058            |
| <b>Total Revenues</b> | <b>\$898,873</b> | <b>\$536,941</b> | <b>\$377,502</b> |

| LONG LIVED ASSETS (1)          | 2006             | 2005             |
|--------------------------------|------------------|------------------|
| United States                  | \$ 78,262        | \$ 73,340        |
| Europe                         | 207,349          | 134,940          |
| All Other                      | 37               | --               |
| <b>Total Long Lived Assets</b> | <b>\$285,648</b> | <b>\$208,280</b> |

(1) Long-lived assets consist of net property, plant and equipment, intangible assets and goodwill.

REVENUES BY PRODUCT: Total revenue from external customers by product for the years ended December 31, 2006, 2005 and 2004, were as follows:

|   | 2006             | 2005             | 2004             |
|---|------------------|------------------|------------------|
| REVLIMID(R)                                   | \$320,558        | \$ 2,862         | \$ --            |
| THALOMID(R)                                   | 432,950          | 387,816          | 308,577          |
| ALKERAN(R)                                    | 50,337           | 49,748           | 16,956           |
| FOCALIN(TM)                                   | 7,340            | 4,210            | 4,177            |
| Other   | 420              | 989              | 861              |
| <b>Total net product sales</b>                | <b>\$811,605</b> | <b>\$445,625</b> | <b>\$330,571</b> |
| Collaborative agreements<br>and other revenue | 18,189           | 41,334           | 20,012           |
| Royalty revenue                               | 69,079           | 49,982           | 26,919           |
| <b>Total revenue</b>                          | <b>\$898,873</b> | <b>\$536,941</b> | <b>\$377,502</b> |

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CELGENE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2006

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MAJOR CUSTOMERS: As is typical in the pharmaceutical industry, the Company sells its products primarily through wholesale distributors and therefore, wholesale distributors account for a large portion of the Company's net product sales. In 2006, 2005 and 2004, there were three customers that each accounted for more than 10% of the Company's total revenue. Total net sales to each such customer as a percent of total revenue in 2006, 2005 and 2004 were as follows: Cardinal Health 20.2%, 28.9% and 29.5%; McKesson Corp. 16.0%, 20.3% and 18.6%; and Amerisource Bergen Corp. 11.9%, 14.8% and 17.9%. These same customers accounted for the following percentages of accounts receivable for the years ended December 31, 2006 and 2005, respectively: McKesson Corp. 20.6% and 32.8%; Cardinal Health 23.0% and 30.0%; and Amerisource Bergen Corp. 10.5% and 13.2%.

### (19) QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

|                                  | 1Q         | 2Q         | 3Q         | 4Q         | Ye     |
|----------------------------------|------------|------------|------------|------------|--------|
| 2006                             |            |            |            |            |        |
| ----                             |            |            |            |            |        |
| Total revenue                    | \$ 181,841 | \$ 197,239 | \$ 244,839 | \$ 274,954 | \$ 898 |
| Gross profit (1)                 | 130,099    | 149,602    | 188,900    | 217,112    | 685    |
| Income tax (provision)           | (15,042)   | (26,735)   | (41,139)   | (50,998)   | (133   |
| Net income                       | 16,024     | 9,608      | 20,437     | 22,912     | 68     |
| Net income per common share: (2) |            |            |            |            |        |
| basic                            | \$ 0.05    | \$ 0.03    | \$ 0.06    | \$ 0.06    | \$     |
| diluted                          | \$ 0.04    | \$ 0.03    | \$ 0.05    | \$ 0.06    | \$     |
| Weighted average shares:         |            |            |            |            |        |
| basic                            | 343,966    | 347,696    | 351,200    | 365,820    | 352    |
| diluted                          | 400,699    | 370,360    | 404,858    | 419,334    | 407    |

|                                  | 1Q         | 2Q         | 3Q         | 4Q         | Ye     |
|----------------------------------|------------|------------|------------|------------|--------|
| 2005                             |            |            |            |            |        |
| ----                             |            |            |            |            |        |
| Total revenue                    | \$ 112,396 | \$ 145,701 | \$ 129,506 | \$ 149,338 | \$ 536 |
| Gross profit (1)                 | 85,041     | 87,187     | 90,701     | 101,969    | 364    |
| Income tax benefit (provision)   | 34,172     | (29,967)   | (12,975)   | (11,786)   | (20    |
| Net income                       | 48,214     | 10,846     | 668        | 3,928      | 63     |
| Net income per common share: (2) |            |            |            |            |        |
| basic                            | \$ 0.15    | \$ 0.03    | \$ --      | \$ 0.01    | \$     |
| diluted                          | \$ 0.13    | \$ 0.03    | \$ --      | \$ 0.01    | \$     |
| Weighted average shares:         |            |            |            |            |        |
| basic                            | 331,225    | 334,282    | 336,596    | 339,839    | 335    |
| diluted                          | 382,216    | 352,023    | 359,724    | 359,998    | 390    |

- (1) Gross profit is computed by subtracting cost of goods sold from net product sales.
- (2) The sum of the quarters may not equal the full year basic and diluted earnings per share since each period is calculated separately.

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CELGENE CORPORATION AND SUBSIDIARIES  
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
 (DOLLARS IN THOUSANDS)

| Year ended December 31,          | Balance at beginning of year | Additions charged to expense or sales | Deductions | Balance at end of year |
|----------------------------------|------------------------------|---------------------------------------|------------|------------------------|
| -----                            |                              |                                       |            |                        |
| 2006                             |                              |                                       |            |                        |
| ----                             |                              |                                       |            |                        |
| Allowance for doubtful accounts  | \$ 2,292                     | \$ 2,169                              | \$ 132     | \$ 4,329               |
| Allowance for customer discounts | 1,447                        | 18,881 (1)                            | 18,032     | 2,296                  |
| -----                            |                              |                                       |            |                        |
| Subtotal                         | 3,739                        | 21,050                                | 18,164     | 6,625                  |
| Allowance for sales returns      | 5,017                        | 54,551 (1)                            | 50,088     | 9,480                  |
| -----                            |                              |                                       |            |                        |
| Total                            | \$ 8,756                     | \$75,601                              | \$68,252   | \$16,105               |
| =====                            |                              |                                       |            |                        |
| 2005                             |                              |                                       |            |                        |
| ----                             |                              |                                       |            |                        |
| Allowance for doubtful accounts  | \$ 1,370                     | \$ 1,029                              | \$ 107     | \$ 2,292               |
| Allowance for customer discounts | 837                          | 10,948 (1)                            | 10,338     | 1,447                  |
| -----                            |                              |                                       |            |                        |
| Subtotal                         | 2,207                        | 11,977                                | 10,445     | 3,739                  |
| Allowance for sales returns      | 9,600                        | 21,256 (1)                            | 25,839     | 5,017                  |
| -----                            |                              |                                       |            |                        |
| Total                            | \$11,807                     | \$33,233                              | \$36,284   | \$ 8,756               |
| =====                            |                              |                                       |            |                        |
| 2004                             |                              |                                       |            |                        |
| ----                             |                              |                                       |            |                        |
| Allowance for doubtful accounts  | \$ 873                       | \$ 867                                | \$ 370     | \$ 1,370               |
| Allowance for customer discounts | 657                          | 7,448 (1)                             | 7,268      | 837                    |
| -----                            |                              |                                       |            |                        |
| Subtotal                         | 1,530                        | 8,315                                 | 7,638      | 2,207                  |
| Allowance for sales returns      | 8,368                        | 16,279 (1)                            | 15,047     | 9,600                  |
| -----                            |                              |                                       |            |                        |
| Total                            | \$ 9,898                     | \$24,594                              | \$22,685   | \$11,807               |
| =====                            |                              |                                       |            |                        |

(1) Amounts are a reduction from gross sales.

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