CELGENE CORP /DE/
Form 10-Q
October 29, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark one)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013

OR

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

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

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

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

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

Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	X	Accelerated filer	
Non-accelerated filer (Do not check if a smaller reporting company)		Smaller reporting company	

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

Yes No X

At October 22, 2013, 412,069,519 shares of Common Stock, par value $.01 per share, were outstanding.

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CELGENE CORPORATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2013	2012	2013	2012
Revenue:				
Net product sales	$1,644.0	$1,388.0	$4,637.4	$3,970.1
Collaborative agreements and other revenue	2.2	2.3	12.4	8.2
Royalty revenue	28.2	28.9	88.2	81.0
Total revenue	1,674.4	1,419.2	4,738.0	4,059.3
Expenses:				
Cost of goods sold (excluding amortization of acquired intangible assets)	86.2	74.6	247.6	219.0
Research and development	584.5	441.5	1,495.0	1,250.7
Selling, general and administrative	448.7	354.6	1,235.8	1,003.4
Amortization of acquired intangible assets	65.7	46.2	197.1	132.1
Acquisition related charges and restructuring, net	33.7	0.7	79.4	28.9
Total costs and expenses	1,218.8	917.6	3,254.9	2,634.1
Operating income	455.6	501.6	1,483.1	1,425.2
Other income and (expense):				
Interest and investment income, net	5.3	2.8	14.6	9.6
Interest (expense)	(24.0)	(17.9)	(61.5)	(40.7)
Other income (expense), net	5.1	(10.0)	12.0	(2.9)
Income before income taxes	442.0	476.5	1,448.2	1,391.2
Income tax provision	69.5	52.3	212.7	198.1
Net income	$372.5	$424.2	$1,235.5	$1,193.1
Net income per common share:				
Basic	$0.90	$0.99	$2.98	$2.75
Diluted	$0.87	$0.97	$2.87	$2.69
Weighted average shares:				
Basic	412.3	427.2	414.7	434.1
Diluted	428.8	436.3	430.5	443.4

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2013	2012	2013	2012
Net income	$372.5	$424.2	$1,235.5	$1,193.1
Other comprehensive income (loss):				
Foreign currency translation adjustments	17.9	4.7	22.0	6.8
Change in functional currency of a foreign subsidiary	—	—	—	13.1
Net unrealized gains (losses) related to cash flow hedges:				
Unrealized holding gains (losses), net of tax expense (benefit) of ($0.2) and ($1.3) for the three-months ended September 30, 2013 and 2012, respectively, and $0 and ($13.1) for the nine-months ended September 30, 2013 and 2012, respectively.	(89.6)	(26.8)	(3.2)	21.1
Reclassification adjustment for (gains) losses included in net income, net of tax (expense) benefit of $0.3 and $0.6 for the three-months ended September 30, 2013 and 2012, respectively, and $6.5 and ($2.4) for the nine-months ended September 30, 2013 and 2012, respectively.	(11.4)	(24.9)	(11.6)	(59.9)
Net unrealized gains (losses) on marketable securities available for sale:				
Unrealized holding gains (losses), net of tax expense (benefit) of $58.5 and $0 for the three-months ended September 30, 2013 and 2012, respectively, and $78.4 and ($0.1) for the nine-months ended September 30, 2013 and 2012, respectively.	104.6	1.7	137.6	3.3
Reclassification adjustment for (gains) losses included in net income, net of tax (expense) benefit of $0.8 and $0 for the three-months ended September 30, 2013 and 2012, respectively, and $1.8 and $0 for the nine-months ended September 30, 2013 and 2012, respectively.	2.2	0.4	4.4	0.1
Total other comprehensive income (loss)	23.7	(44.9)	149.2	(15.5)
Comprehensive income	$396.2	$379.3	$1,384.7	$1,177.6

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$2,423.0	$2,090.4
Marketable securities available for sale	3,424.3	1,809.9
Accounts receivable, net of allowances of $44.0 and $33.0 at September 30, 2013 and December 31, 2012, respectively	1,093.3	960.5
Inventory	313.3	259.5
Deferred income taxes	5.5	93.2
Other current assets	387.8	320.2
Total current assets	7,647.2	5,533.7
Property, plant and equipment, net	592.3	578.4
Intangible assets, net	2,908.2	3,100.4
Goodwill	2,042.1	2,042.8
Other assets	439.3	479.0
Total assets	$13,629.1	$11,734.3
Liabilities and Stockholders’ Equity		
Current liabilities:		
Short-term borrowings	$405.9	$308.5
Accounts payable	139.6	145.6
Accrued expenses	870.1	775.7
Income taxes payable	9.9	11.8
Current portion of deferred revenue	44.8	17.3
Other current liabilities	471.0	431.3
Total current liabilities	1,941.3	1,690.2
Deferred revenue, net of current portion	20.8	16.2
Income taxes payable	209.6	188.2
Deferred income taxes	857.0	1,018.4
Other non-current liabilities	477.4	355.5
Long-term debt, net of discount	4,228.3	2,771.3
Total liabilities	7,734.4	6,039.8
Commitments and Contingencies (Note 15)		
Stockholders’ Equity:		
Preferred stock, $.01 par value per share, 5.0 million shares authorized; none outstanding at September 30, 2013 and December 31, 2012, respectively	—	—
Common stock, $.01 par value per share, 575.0 million shares authorized; issued 509.5 million and 498.4 million shares at September 30, 2013 and December 31, 2012, respectively	5.1	5.0
Common stock in treasury, at cost; 96.9 million and 78.7 million shares at September 30, 2013 and December 31, 2012, respectively	(6,930.1)	(4,823.2)
Additional paid-in capital	8,462.1	7,539.8
Retained earnings	4,258.1	3,022.6
Accumulated other comprehensive income (loss)	99.5	(49.7)

Total stockholders' equity	5,894.7	5,694.5
Total liabilities and stockholders' equity	$13,629.1	$11,734.3

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	Nine-Month Periods Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	$1,235.5	$1,193.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	71.8	59.9
Amortization	205.0	133.0
Provision for accounts receivable allowances	8.3	14.6
Deferred income taxes	(161.5)	143.6
Impairment charges	18.8	64.9
Change in value of contingent consideration	79.5	26.3
Share-based compensation expense	227.4	171.0
Share-based employee benefit plan expense	25.2	15.1
Reclassification adjustment for cash flow hedges included in net income	(5.1)	(62.4)
Unrealized change in value of derivative instruments	10.8	47.9
Realized losses on marketable securities available for sale	6.0	0.2
Other, net	0.1	1.3
Change in current assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	(138.7)	(34.6)
Inventory	(62.6)	(46.3)
Other operating assets	(49.7)	182.8
Assets held for sale, net	—	(1.2)
Accounts payable and other operating liabilities	150.7	99.2
Income tax payable	22.0	(469.1)
Deferred revenue	31.7	(0.3)
Net cash provided by operating activities	1,675.2	1,539.0
Cash flows from investing activities:		
Proceeds from sales of marketable securities available for sale	1,936.2	1,188.7
Purchases of marketable securities available for sale	(3,237.3)	(1,517.5)
Payments for acquisition of business, net of cash acquired	—	(352.2)
(Purchases) sales of intellectual property and other assets	(19.4)	15.8
Capital expenditures	(93.1)	(81.9)
Purchases of investment securities	(27.9)	(30.0)
Other investing activities	(1.9)	(1.0)
Net cash used in investing activities	(1,443.4)	(778.1)
Cash flows from financing activities:		
Payment for treasury shares	(2,068.0)	(1,481.2)
Proceeds from short-term borrowing	3,761.0	3,874.4
Principal repayments on short-term borrowing	(3,665.9)	(4,075.4)
Proceeds from the issuance of long-term debt	1,479.6	1,486.7
Net proceeds from exercise of common stock options and warrants	458.0	321.0
Excess tax benefit from share-based compensation arrangements	139.0	19.9
Net cash provided by financing activities	103.7	145.4

Effect of currency rate changes on cash and cash equivalents	(2.9)	(50.3)
Net increase in cash and cash equivalents	332.6	856.0
Cash and cash equivalents at beginning of period	2,090.4	1,859.5
Cash and cash equivalents at end of period	$2,423.0	$2,715.5

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	Nine-Month Periods Ended September 30,	
	2013	2012
Supplemental schedule of non-cash investing and financing activity:		
Change in net unrealized (gain) loss on marketable securities available for sale	$(216.2)	$(3.2)
Matured shares tendered in connection with stock option exercises	$(0.1)	$(0.2)
Supplemental disclosure of cash flow information:		
Interest paid	$67.4	$25.0
Income taxes paid	$226.2	$369.6

See accompanying Notes to Unaudited Consolidated Financial Statements

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

1. Nature of Business and Basis of Presentation

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

Our primary commercial stage products include REVLIMID®, VIDAZA®, ABRAXANE®, POMALYST®/IMNOVID®, THALOMID® (inclusive of Thalidomide Celgene®) and ISTODAX®.

During the nine-months ended September 30, 2013, we received the following approvals in major markets for new products or additional approvals for existing products:

- REVLIMID® was approved for an additional indication by the U.S. Food and Drug Administration (FDA) in June 2013 for the treatment of patients with mantle cell lymphoma (MCL) whose disease has relapsed or progressed after two prior therapies, one of which must include bortezomib.
- REVLIMID® was also approved by the European Commission (EC) in June 2013 for the treatment of patients with transfusion-dependent anemia due to low- or intermediate-1-risk myelodysplastic syndrome (MDS) associated with an isolated deletion 5q cytogenetic abnormality when other therapeutic options are insufficient or inadequate.
- ABRAXANE® was approved for an additional indication by the FDA in September 2013 as a first-line treatment for patients with metastatic adenocarcinoma of the pancreas, in combination with gemcitabine.
- POMALYST® received its first approval from the FDA in February 2013 for the treatment of patients with multiple myeloma who have received at least two prior therapies, including lenalidomide and bortezomib and have demonstrated disease progression on or within 60 days of completion of the last therapy.
- POMALYST® (sold in the European Union (EU) under the trade name IMNOVID®) was approved by the EC in August 2013, in combination with dexamethasone, for adult patients with relapsed and refractory multiple myeloma who have received at least two prior therapies, including both lenalidomide and bortezomib and have demonstrated disease progression on the last therapy.

Additional sources of revenue include royalties from Novartis on their sales of FOCALIN XR® and the entire RITALIN® family of drugs, the sale of services through our Celgene Cellular Therapeutics subsidiary and other licensing agreements.

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

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

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

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2. Summary of Significant Accounting Policies

Our significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2012 (2012 Annual Report on Form 10-K). The following additional significant accounting policies also apply:

Investments in Other Entities: Investments in equity securities of companies that become publicly traded are accounted for as available-for-sale marketable securities prospectively from the date of such companies' initial public offering.

New Accounting Pronouncements: In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" (ASU 2013-2). ASU 2013-2 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. An entity shall provide this information together, in one location, either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU 2013-2 did not have a material impact on our financial position or results of operations.

In July 2013, the FASB issued Accounting Standards Update "Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes" (ASU 2013-10). ASU 2013-10 permits the use of the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate), in addition to the U.S. government rate (UST) and London Interbank Offered Rate (LIBOR), as a U.S. benchmark interest rate for hedge accounting purposes. This update is effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 did not have a material impact on our financial position or results of operations.

In July 2013, the FASB issued Accounting Standards Update "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" (ASU 2013-11). ASU 2013-11 requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss (NOL) carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. ASU 2013-11 is effective prospectively for fiscal years and interim periods within those years, beginning after December 15, 2013 for public entities. Early adoption and retrospective application are permitted. We do not expect the adoption of ASU 2013-11 to have a material impact on our financial position or results of operations.

3. Acquisitions

Avila Acquisition

On March 7, 2012 (Acquisition Date) we acquired all of the outstanding common stock of Avila Therapeutics, Inc., which was subsequently renamed Celgene Avilomics Research (Avila). The acquisition resulted in Avila becoming our wholly-owned subsidiary. The results of operations for Avila are included in our consolidated financial statements from the Acquisition Date and the assets and liabilities of Avila have been recorded at their respective fair values on the Acquisition Date and consolidated with our other assets and liabilities.

We paid $352.2 million in cash, net of cash acquired and we may make additional payments based on achievement of developmental and regulatory milestones. Our potential contingent milestone payments are classified as liabilities, which were measured at fair value as of the Acquisition Date. The range of potential milestone payments is from no payment if none of the milestones are achieved to an estimated maximum of $595.0 million if all milestones are achieved. The potential milestones consist of the initiation of phase II and phase III studies, investigational new drug (IND) filings and other regulatory events related to certain potential products in various stages of development.

Contingent Value Rights

In connection with the acquisition of Abraxis BioScience, Inc. (Abraxis) on October 15, 2010, we issued Contingent Value Rights (CVRs). Each holder of a CVR is entitled to receive a pro rata portion, based on the number of CVRs then outstanding, of contingent cash payments.

In September 2013, the FDA approved ABRAXANE® for use in the treatment of pancreatic cancer, permitting us to market ABRAXANE® with a label that includes an overall survival claim. This approval resulted in the achievement of milestone #2 and the subsequent payment of the $300 million milestone on October 4, 2013 in accordance with the CVR agreement. The fair value of our total liability related to the CVRs was $347.9 million on September 30, 2013 and $277.4 million on December 31, 2012. For more information, see Note 2 of Notes to Consolidated Financial Statements included in our 2012 Annual Report on Form 10-K.

4. Earnings Per Share

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
(Amounts in millions, except per share)	2013	2012	2013	2012
Net income	$372.5	$424.2	$1,235.5	$1,193.1
Weighted-average shares:				
Basic	412.3	427.2	414.7	434.1
Effect of dilutive securities:				
Options, restricted stock units, warrants and other incentives	16.5	9.1	15.8	9.3
Diluted	428.8	436.3	430.5	443.4
Net income per share:				
Basic	$0.90	$0.99	$2.98	$2.75
Diluted	$0.87	$0.97	$2.87	$2.69

The total number of potential shares of common stock excluded from the diluted earnings per share computation because their inclusion would have been anti-dilutive was 4.1 million and 11.6 million shares for the three-month periods ended September 30, 2013 and 2012, respectively. The total number of potential shares of common stock excluded for the nine-month periods ended September 30, 2013 and 2012 was 5.1 million and 11.5 million, respectively.

During the period of April 2009 through September 2013, our Board of Directors has approved repurchases of up to an aggregate of $9.500 billion of our common stock, including the June 2013 authorization to repurchase an additional $3.000 billion of our common stock.

As part of the Board authorized share repurchase program, in February 2013 we entered into an Accelerated Share Repurchase (ASR) agreement with an investment bank to repurchase an aggregate of $600.0 million of our common stock. The total number of shares repurchased under the ASR agreement was 5.2 million shares at a weighted average price of $114.30 per share.

We have repurchased 1.5 million and 17.8 million shares of common stock under the program from all sources, including the ASR, during the three- and nine-month periods ended September 30, 2013, respectively. As of September 30, 2013, we had a remaining open-ended repurchase authorization of $2.790 billion.

5. Accumulated Other Comprehensive Income (Loss)

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

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

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

	Pension Liability	Net Unrealized Gains (Losses) From Marketable Securities	Net Unrealized Gains (Losses) From Hedges	Foreign Currency Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance December 31, 2012	$(10.1)	$4.2	$(16.1)	$(27.7)	$(49.7)
Other comprehensive income (loss) before reclassifications	—	137.6	(3.2)	22.0	156.4
Amounts reclassified from accumulated other comprehensive income	—	4.4	(11.6)	—	(7.2)
Net current-period other comprehensive income (loss)	—	142.0	(14.8)	22.0	149.2
Balance September 30, 2013	$(10.1)	$146.2	$(30.9)	$(5.7)	$99.5
Balance December 31, 2011	$(5.4)	$1.8	$8.7	$(67.4)	$(62.3)
Other comprehensive income before reclassifications	—	3.3	21.1	19.9	44.3
Amounts reclassified from accumulated other comprehensive income	—	0.1	(59.9)	—	(59.8)
Net current-period other comprehensive income (loss)	—	3.4	(38.8)	19.9	(15.5)
Balance September 30, 2012	$(5.4)	$5.2	$(30.1)	$(47.5)	$(77.8)

Accumulated Other Comprehensive	Affected Line Item in the Consolidated Statements of	Gains (Losses) Reclassified Out of Accumulated Other Comprehensive Income			
		Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
Income Components	Income	2013	2012	2013	2012
Gains (losses) from cash-flow hedges:					
Foreign exchange contracts	Net product sales	$12.0	$24.8	$7.6	$62.8
Treasury rate lock agreements	Interest (expense)	(0.9)	(0.5)	(2.5)	(0.5)
	Income tax benefit (expense)	0.3	0.6	6.5	(2.4)
Gains (losses) from available-for-sale marketable securities:					
Realized income (loss) on sales of marketable securities	Interest and investment income, net	(3.0)	(0.4)	(6.2)	(0.1)
	Income tax benefit	0.8	—	1.8	—
		$9.2	$24.5	$7.2	$59.8

Total reclassification, net of tax

6. Financial Instruments and Fair Value Measurement

The table below presents information about assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2013 and the valuation techniques we utilized to determine such fair value. Fair values determined based on Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Our Level 1 assets consist of marketable equity securities. Fair values determined based on Level 2 inputs utilize observable quoted prices for similar assets and liabilities in active markets and observable quoted prices for identical or similar assets in markets that are not very active. Our Level 2 assets consist primarily of U.S. Treasury securities, U.S. government-sponsored agency securities, U.S. government-sponsored agency mortgage-backed securities, non-U.S. government, agency and Supranational securities, global corporate debt securities, asset backed securities, foreign currency forward contracts, purchased foreign currency options and interest rate swap contracts. Fair values determined based on Level 3 inputs utilize unobservable inputs and include valuations of assets or liabilities for which there is little, if any, market activity. We do not have any Level 3 assets. Our Level 1 liability relates to our publicly traded CVRs. See Note 2 of Notes to Consolidated Financial Statements included in our 2012 Annual Report on Form 10-K for a description of the CVRs. Our Level 2 liabilities relate to interest rate swap contracts, forward starting interest rate swap contracts and written foreign currency options. Our Level 3 liabilities consist of contingent consideration related to undeveloped product rights resulting from the acquisition of Gloucester Pharmaceuticals, Inc. (Gloucester) and contingent consideration related to the undeveloped product rights and the technology platform acquired from the Avila acquisition. The maximum potential payments related to the contingent consideration from the acquisitions of Gloucester and Avila are estimated to be $120.0 million and $595.0 million, respectively.

	Balance at September 30, 2013	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	$3,424.3	$422.3	$3,002.0	$—
Cash equivalents	52.0	—	52.0	—
Total assets	$3,476.3	$422.3	$3,054.0	$—
Liabilities:				
Forward currency contracts	$(8.9)	$—	$(8.9)	$—
Contingent value rights	(347.9)	(347.9)	—	—
Written currency options	(0.3)	—	(0.3)	—
Interest rate swaps	(31.5)	—	(31.5)	—
Other acquisition related contingent consideration	(207.0)	—	—	(207.0)
Total liabilities	$(595.6)	$(347.9)	$(40.7)	$(207.0)

	Balance at December 31, 2012	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available-for-sale securities	$1,809.9	$0.3	$1,809.6	$—
Cash equivalents	27.0	—	27.0	—
Interest rate swaps	1.7	—	1.7	—
Forward currency contracts	17.8	—	17.8	—
Purchased currency options	2.7	—	2.7	—
Total assets	$1,859.1	$0.3	$1,858.8	$—
Liabilities:				
Contingent value rights	$(277.4)	$(277.4)	$—	$—
Written currency options	(5.1)	—	(5.1)	—
Other acquisition related contingent consideration	(198.1)	—	—	(198.1)
Total liabilities	$(480.6)	$(277.4)	$(5.1)	$(198.1)

There were no security transfers between Levels 1 and 2 during the nine-month periods ended September 30, 2013 and 2012. The following table represents a roll-forward of the fair value of Level 3 instruments (significant unobservable inputs):

	Nine-Month Periods Ended September 30,	
	2013	2012
Liabilities:		
Balance at beginning of period	$(198.1)	$(76.9)
Amounts acquired or issued	—	(171.7)
Net change in fair value	(8.9)	35.6
Settlements	—	—
Transfers in and/or out of Level 3	—	—
Balance at end of period	$(207.0)	$(213.0)

Level 3 liabilities issued during the nine-month period ended September 30, 2012 consisted of contingent consideration related to the acquisition of Avila.

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7. Derivative Instruments and Hedging Activities

Our revenue, earnings, cash flows and fair values of assets and liabilities can be impacted by fluctuations in foreign exchange rates and interest rates. We actively manage the impact of foreign exchange rate and interest rate movements through operational means and through the use of various financial instruments, including derivative instruments such as foreign currency forward contracts, foreign currency option contracts, treasury rate lock agreements and interest rate swap contracts.

Foreign Currency Risk Management

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

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

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

We manage a portfolio of foreign currency forward contracts to protect against changes in anticipated foreign currency cash flows resulting from changes in foreign currency exchange rates, primarily associated with non-functional currency denominated revenues and expenses of foreign subsidiaries. The foreign currency forward hedging contracts outstanding at September 30, 2013 and December 31, 2012 had settlement dates within 36 months. These foreign currency forward contracts are designated as cash flow hedges and, to the extent effective, any unrealized gains or losses on them are reported in other comprehensive income (loss) (OCI) and reclassified to operations in the same periods during which the underlying hedged transactions affect operations. Any ineffectiveness on these foreign currency forward contracts is reported in other income (expense), net. Foreign currency forward contracts entered into to hedge forecasted revenue and expenses were as follows at September 30, 2013 and December 31, 2012:

Foreign Currency	Notional Amount September 30, 2013	December 31, 2012
Australian Dollar	$53.7	$5.1
British Pound	313.8	77.9
Canadian Dollar	84.7	134.4
Euro	2,425.3	969.3
Japanese Yen	703.2	236.2
Total	$3,580.7	$1,422.9

We consider the impact of our own and the counterparties' credit risk on the fair value of the contracts as well as the ability of each party to execute its obligations under the contract on an ongoing basis. As of September 30, 2013, credit risk did not materially change the fair value of our foreign currency forward contracts.

We also manage a portfolio of foreign currency contracts to reduce exposures to foreign currency fluctuations of certain recognized assets and liabilities denominated in foreign currencies and, from time to time, we enter into foreign currency contracts to manage exposure related to translation of foreign earnings. These foreign currency forward contracts have not been designated as hedges and, accordingly, any changes in their fair value are recognized on the Consolidated Statements of Income in other income (expense), net in the current period. The aggregate notional amount of the foreign currency forward non-designated hedging contracts outstanding at September 30, 2013 and December 31, 2012 were $816.1 million and $795.4 million, respectively.

Foreign Currency Option Contracts: We hedge a portion of our future foreign currency exposure by utilizing a strategy that involves both a purchased local currency put option and a written local currency call option that are accounted for as hedges of future sales

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denominated in euros. Specifically, we sell (or write) a local currency call option and purchase a local currency put option with the same expiration dates and amounts but with different strike prices; this combination of transactions is generally referred to as a “collar”. The expiration dates and notional amounts correspond to the amount and timing of forecasted future foreign currency sales. If the U.S. dollar weakens relative to the currency of the hedged anticipated sales, the purchased put option value reduces to zero and we benefit from the increase in the U.S. dollar equivalent value of our anticipated foreign currency cash flows, however this benefit would be capped at the strike level of the written call, which forms the upper end of the collar. The premium collected from the call option partially offsets the premium paid for the purchased put option, resulting in a net cost for the collars.

In order to fully offset the net cost of collars entered into to hedge sales, we sold local currency put options with a lower strike price and the same expiration dates and amounts as the option contracts included in the collars. These written put options introduced risk of loss if the U.S. dollar were to strengthen beyond the strike price of the written put options. We entered into purchased put options that were not designated as hedges in order to partially offset the risk of loss that would be incurred on the written put options if the US dollar were to strengthen beyond the strike price of the written put. Gains and losses associated with the non-hedge put options have been recorded on the income statement as other income (expense), net.

Foreign currency option contracts entered into to hedge forecasted revenue and expenses were as follows at September 30, 2013 and December 31, 2012:

	Notional Amount*	
Foreign Currency Option	September 30, 2013	December 31, 2012
Designated as hedging activity:		
Purchased Put	$24.3	$228.8
Written Call	$25.4	$235.9
Not designated as hedging activity:		
Purchased Put	$22.7	$160.5
Written Put	$(22.7)	$(216.0)

* U.S. Dollar notional amounts are calculated as the hedged local currency amount multiplied times the strike value of the foreign currency option. The local currency notional amounts of our purchased put and written call that are designated as hedging activity are equal to each other.

Interest Rate Risk Management

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

Forward Starting Interest Rate Swaps: During September 2013 we entered into a forward starting swap, that was designated as a cash flow hedge, with a notional value of $100.0 million, an effective date in November 2014 and a maturity of ten years to hedge against changes in interest rates that could impact an anticipated issuance of debt. During October 2013, we entered into additional forward starting swaps with an effective date in November 2014 and an aggregate notional value of $150.0 million, consisting of $100 million with a five year maturity and $50 million with a ten year maturity.

Treasury Rate Lock Agreements: During 2012, we entered into treasury rate locks in anticipation of issuing fixed-rate notes that were issued in August 2012. The treasury rate locks were settled during 2012, resulting in losses of $35.3 million that were recorded to OCI. No material amounts were recorded in income during the nine-month periods ended September 30, 2013 or 2012 as a result of hedge ineffectiveness or hedge components excluded from the assessment of effectiveness. We have not entered into any treasury rate locks during the nine months ended September 30, 2013 and at September 30, 2013 we had no outstanding treasury rate locks.

Interest Rate Swap Contracts: From time to time we hedge the fair value of certain debt obligations through the use of interest rate swap contracts. The interest rate swap contracts are designated hedges of the fair value changes in the notes attributable to changes in interest rates. Since the specific terms and notional amount of the swap are intended to match those of the debt being hedged, it is assumed to be a highly effective hedge and all changes in fair value of the swap are recorded on the Consolidated

Balance Sheets with no net impact recorded in income. Any net interest payments made or received on interest rate swap contracts are recognized as interest expense. We may terminate the hedging relationship of certain swap contracts by settling the contracts or by entering into offsetting contracts. At the time a hedging relationship is terminated, accumulated gains or losses associated with the swap contract are measured and recorded as a reduction of current and future interest expense associated with the previously hedged notes.

During the nine-month period ended September 30, 2013, we entered into swap contracts that were designated as hedges of our fixed rate notes due in 2015, 2017, 2018, 2020, 2022 and 2023 and also terminated the hedging relationship by settling certain of those swap contracts during the nine-month period ended September 30, 2013. This resulted in net proceeds received of $21.9 million which is accounted for as a reduction of current and future interest expense associated with these notes. See Note 11 for additional details related to reductions of current and future interest expense.

At September 30, 2013, we were a party to pay-floating, receive-fixed interest rate swap contracts designated as fair value hedges of fixed-rate notes in which the notional amounts match the amount of the hedged fixed-rate notes. The following table summarizes the notional amounts of our outstanding swap contracts at September 30, 2013 and December 31, 2012:

	Notional Amount	
	September 30, 2013	December 31, 2012
Interest rate swap contracts entered into as fair value hedges of the following fixed-rate senior notes:		
2.450% senior notes due 2015	$300.0	$—
1.900% senior notes due 2017	300.0	100.0
3.950% senior notes due 2020	500.0	—
3.250% senior notes due 2022	850.0	200.0
4.000% senior notes due 2023	50.0	—
Total	$2,000.0	$300.0

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

The following table summarizes the fair value and presentation in the Consolidated Balance Sheets for derivative instruments as of September 30, 2013 and December 31, 2012:

	September 30, 2013			
Instrument	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange contracts*	Other current assets	$62.6	Other current assets	$24.7
	Other current liabilities	35.2	Other current liabilities	70.5
	Other non-current assets	31.4	Other non-current assets	19.5
	Other non-current liabilities	0.9	Other non-current liabilities	17.4
Interest rate swap agreements	Other current assets	11.4	Other current assets	—
	Other non-current assets	0.3	Other non-current assets	—
	Other non-current liabilities	—	Other non-current liabilities	44.8
Derivatives not designated as hedging instruments:				
Foreign exchange contracts*	Other current assets	20.0	Other current assets	6.2
	Other current liabilities	5.5	Other current liabilities	27.5
	Other non-current assets	1.1	Other non-current assets	—
Interest rate swap agreements	Other non-current assets	1.6	Other non-current assets	—
Total		$170.0		$210.6

	December 31, 2012			
Instrument	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange contracts*	Other current assets	$35.2	Other current assets	$12.7
	Other current liabilities	9.1	Other current liabilities	31.4
	Other non-current assets	30.5	Other non-current assets	13.8
Interest rate swap agreements	Other current assets	0.1	Other current assets	—
	Other non-current assets	0.1	Other non-current assets	0.2
	Other non-current liabilities	—	Other non-current liabilities	0.6

Derivatives not designated as hedging instruments:				
Foreign exchange contracts*	Other current assets	45.8	Other current assets	36.3
	Other current liabilities	10.4		