

CELGENE CORP /DE/
Form 10-Q
October 27, 2016

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

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

For the quarterly period ended September 30, 2016

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 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 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 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

At October 21, 2016, 775,203,498 shares of Common Stock, par value \$.01 per share, were outstanding.

CELGENE CORPORATION

FORM 10-Q TABLE OF CONTENTS

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1 Financial Statements (Unaudited)</u>	
Consolidated Statements of Operations - Three-Month and Nine-Month Periods Ended September 30, 2016 and 2015	<u>3</u>
Consolidated Statements of Comprehensive Income (Loss) - Three-Month and Nine-Month Periods Ended September 30, 2016 and 2015	<u>4</u>
<u>Consolidated Balance Sheets - As of September 30, 2016 and December 31, 2015</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows - Nine-Month Periods Ended September 30, 2016 and 2015</u>	<u>6</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2 Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>40</u>
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	<u>61</u>
<u>Item 4 Controls and Procedures</u>	<u>65</u>
<u>PART II OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	<u>66</u>
<u>Item 1A Risk Factors</u>	<u>66</u>
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>79</u>
<u>Item 6 Exhibits</u>	<u>80</u>
<u>Signature</u>	<u>81</u>

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

CELGENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share amounts)

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Net product sales	\$2,968.6	\$2,312.6	\$8,207.8	\$6,621.9
Other revenue	14.2	21.5	40.9	70.8
Total revenue	2,982.8	2,334.1	8,248.7	6,692.7
Expenses:				
Cost of goods sold (excluding amortization of acquired intangible assets)	107.7	109.9	324.5	314.7
Research and development	1,653.5	1,304.5	3,335.4	2,920.5
Selling, general and administrative	698.0	550.3	1,973.1	1,696.3
Amortization of acquired intangible assets	87.1	63.6	353.7	190.9
Acquisition related charges and restructuring, net	25.0	226.2	25.3	215.9
Total costs and expenses	2,571.3	2,254.5	6,012.0	5,338.3
Operating income	411.5	79.6	2,236.7	1,354.4
Other income and (expense):				
Interest and investment income, net	7.3	8.6	21.3	26.4
Interest (expense)	(127.8)	(88.5)	(373.0)	(186.0)
Other income (expense), net	(34.2)	(19.6)	(11.5)	83.2
Income (loss) before income taxes	256.8	(19.9)	1,873.5	1,278.0
Income tax provision	85.4	14.2	303.2	237.0
Net income (loss)	\$171.4	\$(34.1)	\$1,570.3	\$1,041.0
Net income (loss) per common share:				
Basic	\$0.22	\$(0.04)	\$2.02	\$1.31
Diluted	\$0.21	\$(0.04)	\$1.95	\$1.26
Weighted average shares:				
Basic	775.8	791.1	777.3	794.3
Diluted	801.5	791.1	803.7	827.7

See accompanying Notes to Unaudited Consolidated Financial Statements

CELGENE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(Dollars in millions)

	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$171.4	\$(34.1)	\$1,570.3	\$1,041.0
Other comprehensive income (loss):				
Foreign currency translation adjustments	3.9	(4.2)	6.6	(11.9)
Pension liability adjustment	—	—	—	(7.6)
Net unrealized gains (losses) related to cash flow hedges:				
Unrealized holding gains (losses)	(53.4)	(67.1)	(243.7)	277.0
Tax benefit (expense)	(0.6)	29.9	17.8	8.3
Unrealized holding gains (losses), net of tax	(54.0)	(37.2)	(225.9)	285.3
Reclassification adjustment for (gains) included in net income (loss)	(69.4)	(91.4)	(216.0)	(249.6)
Tax (benefit)	(0.6)	(0.5)	(1.9)	(1.5)
Reclassification adjustment for (gains) included in net income (loss), net of tax	(70.0)	(91.9)	(217.9)	(251.1)
Net unrealized gains (losses) on marketable securities available for sale:				
Unrealized holding (losses)	(7.7)	(426.3)	(361.0)	(434.6)
Tax benefit	2.1	133.7	129.4	136.8
Unrealized holding (losses), net of tax	(5.6)	(292.6)	(231.6)	(297.8)
Reclassification adjustment for losses included in net income (loss)	30.7	10.9	71.2	11.6
Tax (benefit)	(10.9)	(3.9)	(25.0)	(4.1)
Reclassification adjustment for losses included in net income (loss), net of tax	19.8	7.0	46.2	7.5
Total other comprehensive (loss)	(105.9)	(418.9)	(622.6)	(275.6)
Comprehensive income (loss)	\$65.5	\$(453.0)	\$947.7	\$765.4

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,522.6	\$ 4,880.3
Marketable securities available for sale	1,346.0	1,671.6
Accounts receivable, net of allowances of \$32.1 and \$30.3 at September 30, 2016 and December 31, 2015, respectively	1,586.3	1,420.9
Inventory	507.9	443.4
Other current assets	612.8	984.7
Total current assets	9,575.6	9,400.9
Property, plant and equipment, net	891.3	814.1
Intangible assets, net	10,498.9	10,858.1
Goodwill	4,865.8	4,879.0
Other assets	922.1	1,012.3
Total assets	\$ 26,753.7	\$ 26,964.4
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings and current portion of long-term debt	501.0	—
Accounts payable	235.4	240.8
Accrued expenses and other current liabilities	1,847.1	1,647.7
Income taxes payable	3.8	19.8
Current portion of deferred revenue	62.1	60.6
Total current liabilities	2,649.4	1,968.9
Deferred revenue, net of current portion	28.4	30.0
Income taxes payable	370.1	324.2
Other non-current tax liabilities	2,519.2	2,519.2
Other non-current liabilities	1,733.8	2,041.7
Long-term debt, net of discount	13,802.5	14,161.4
Total liabilities	21,103.4	21,045.4
Commitments and Contingencies (Note 15)		
Stockholders' Equity:		
Preferred stock, \$.01 par value per share, 5.0 million shares authorized; none outstanding at September 30, 2016 and December 31, 2015, respectively	—	—
Common stock, \$.01 par value per share, 1,150.0 million shares authorized; issued 949.4 million and 940.1 million shares at September 30, 2016 and December 31, 2015, respectively	9.5	9.4
Common stock in treasury, at cost; 174.0 million and 153.5 million shares at September 30, 2016 and December 31, 2015, respectively	(16,130.2)	(14,051.8)
Additional paid-in capital	11,981.2	11,119.3
Retained earnings	9,644.7	8,074.4
Accumulated other comprehensive income	145.1	767.7
Total stockholders' equity	5,650.3	5,919.0
Total liabilities and stockholders' equity	\$ 26,753.7	\$ 26,964.4

See accompanying Notes to Unaudited Consolidated Financial Statements

5

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

	Nine-Month Periods Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$1,570.3	\$1,041.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		